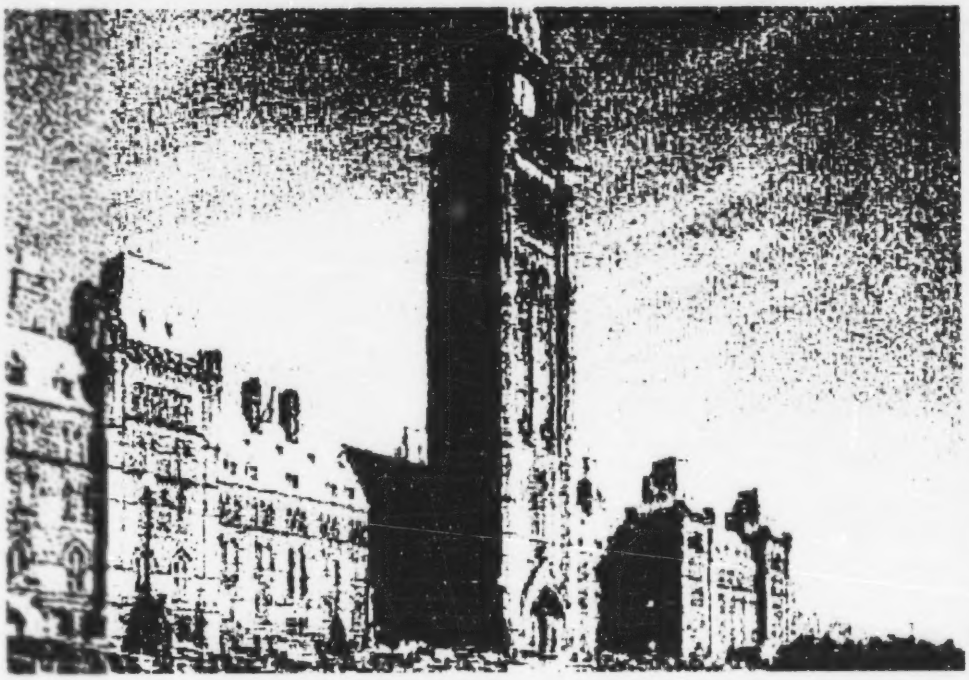
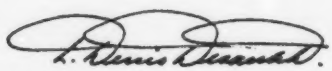
# Reflections on a decade of serving Parliament

1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001

## Report of the Auditor General of Canada to the House of Commons





Auditor General of Canada

# Reflections on a decade of serving Parliament

Report of the Auditor General of Canada to the House of Commons

February 2001

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© Minister of Public Works and Government Services Canada 2001
Cat. No. FA3-28/2001E
ISBN 0-662-29940-X

AUDITOR GENERAL OF CANADA

VÉRIFICATEUR GÉNÉRAL DU CANADA

The Honourable Peter Milliken, M.P.
Speaker of the House of Commons

I have the honour to transmit herewith the first Report of the Auditor General for 2001, my final Report to the House of Commons, to be laid before the House in accordance with the provisions of subsection 7(5) of the *Auditor General Act*.

L. Denis Desautels, FCA
Auditor General of Canada

OTTAWA, 27 February 2001

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# SECTION I

# Introduction

## Canada in the 1990s

1. Canada and its federal government confronted major challenges in the 1990s. The decade began with a recession and ended with an economic boom. Canadians faced new economic realities — free trade; the increasing shift to an economy centred on high technology and communications; concern that the new economy was resulting in undesirable, low-paid "McJobs"; and fears that younger people would face higher debt and less security than their parents.

2. It was a decade characterized by constitutional disputes in Canada — a fundamental questioning of what governments at all levels should be doing and even whether the country should continue in its present form. Native peoples' relationship to the rest of Canadian society underwent great legal and political change, with the establishment of the new territory of Nunavut and the Nisga'a treaty emerging as examples — in sharp contrast with the Oka crisis that we all remember very well.

3. The 1990s saw the end of the Cold War and the development of a new order in international affairs. For the first time since 1953, Canada went to war. Throughout the decade Canadian soldiers, police officers and aid workers kept the peace and provided assistance, often under fire.

## My first impressions as Auditor General

**4.** My strongest impression when I came to Ottawa was the overwhelming importance of conquering the annual deficit and the accumulated debt. There was widespread concern about the impact of the deficit on Canadians' standard of living and that of future generations. I wrote that Canada had entered into a vicious circle: the high accumulated debt and the interest payments on it were themselves putting us deeper in debt. The federal government's continued emphasis on improving internal administrative processes had had little impact on the nation's deteriorating financial condition. Value-for-money auditing, the creation of the Office of the Comptroller General, program evaluations, and an alphabet soup of initiatives — PPBS, MBO, PEMS, IMAA — seemed not to have made any fundamental difference.

**5.** I was also struck by the complexity of managing in the federal government. Many activities involved more than one federal department as well as provincial and municipal governments. Duplication of services and problems in co-ordination marked the management of agriculture, the environment, and fisheries. Devolution of responsibilities to First Nations added to the complexity of their relationship with the government.

**My first impressions as Auditor General were the importance of managing the debt and deficit, the complexity facing the federal government, and the need to reform human resource and financial management.**

**6.** I saw a window of opportunity for reform of the federal public service, then overly burdened by detailed controls on spending, human resource management and other aspects of administration. Noting that the same questions had been raised again and again over 30 years, I wondered if there were not some deep-rooted cultural resistance to change. Aside from the general lack of progress, I was concerned that few measurable objectives had been set for government programs — objectives that managers could manage by instead of detailed controls on resources. The government had not thought through and determined which controls were essential and how it would manage without the rest.

**7.** My overriding impression was that government needed to be more open and accountable. To my mind, the debt and deficit problem could not be solved until the government provided Parliament with more information on the country's financial condition. Program delivery, too, needed a new level of transparency so that Parliament could see whether the government was producing the desired results.

## The importance of Parliament

**8.** I arrived in Ottawa with the conviction that the people's right to control how public funds are collected and spent is one of the cornerstones of democratic government. In Canada, like other parliamentary democracies, this control is carried out on behalf of the people by their elected members of Parliament.

**9.** There is a constant struggle to achieve effective parliamentary control. Our Westminster system of government loads the dice heavily in favour of the executive, which controls the resources of the government. It also creates and thereby controls most of the information about what happens inside the government; and its party dominates Parliament.

**For democracy to work and for government to be efficient and effective, Parliament must be able to play its part.**

**10.** Parliament must therefore be able to play its role — to hold the government to account for its performance and its use of public money raised by Parliament through taxation. Parliament must also be able to see that the government enforces and complies with the laws it passes. If Parliament is unable to exercise its oversight powers effectively, we may pay the price in waste, mismanagement and poor decisions. Governments are only human — they are not likely to volunteer the information that errors have been made, laws broken and targets missed. If governments cannot be held accountable for consequences that flow from errors and poor choices, then errors and poor choices will more likely be made.

**11.** A British academic recently said that of about 190 nations in the world, only 25 achieve total probity and reasonable efficiency, thanks to the scrutiny and audit conducted by a properly elected Parliament. While he believed that the United Kingdom would rank in the top five, he went on to say:

> . . . if anything went wrong with the National Audit Office, its people, its methods, and the power it can wield in Parliament through the Public Accounts Committee, the slide out of the top five, and maybe out of the top 25, would be underway pretty well instantly, and might become unstoppable. And you could hardly single out an institution in the land that's more crucial in those terms than the National Audit Office.

I believe that this is true of not only the United Kingdom and its National Audit Office but also Canada, and the Office of the Auditor General.

12. One of my overriding goals has been to help Parliament be as effective as possible by not only providing it with information directly, through audit reports, but also trying to ensure that the government provides it with a continuous stream of the right information.

## The evolution of my priorities

13. Before I became Auditor General, I had already served in the audit office under James J. Macdonell for about four years, through an executive interchange program. So it did not take me long to establish priorities — I already had a good idea of the challenges, frustrations and unsolved problems facing the federal government. My original priorities were the following:

- Assist Parliament in addressing debt and deficits. I was convinced that this would be the key to permitting government to meet its objectives. In the long term, resources would be freed to respond to people's needs.
- Uphold the fairness of the tax collection system. Coming from the private sector, I had seen that large firms and wealthy individuals had the resources, and armies of very bright accountants and lawyers, to make their case for favourable tax treatment. I believed that Revenue Canada was in danger of being outmatched. Moreover, it was essential that all taxpayers view the system as fair, given the pressures to tax in order to make interest payments on our huge debt. Without an equitable sharing of the burden, people might opt out, evade their obligations and add to the spiralling debt.
- Support the reform of the public service. As I have noted, the failure of reform was an obvious drag on the efficiency and effectiveness of the federal government. The Public Service Commission, the Treasury Board Secretariat, the Privy Council Office and deputy ministers all had responsibilities that added up to an extremely complex way of managing. In addition, human resource management practices were constrained by a web of laws and regulations that had developed bit by bit and over a long time, without any overall plan.
- Work to improve accountability. It seemed clear that Parliament needed much better information to do its job properly. The government needed to tell more about what its spending had achieved and whether it was meeting its goals. But it also needed to make a cultural shift toward accepting accountability and the value of transparency in democratic government. Further, the bureaucratic culture needed to shift from being accountable for following rules and processes to being accountable for getting results.

- Improve financial management. Compared with the private sector, financial management in the government was antiquated. For example, the government was accounting on a cash basis, more or less — charging money to programs in the year the bills were received — rather than an accrual basis, recording expenses as resources were consumed. It had little control over its considerable stock of capital investment. There was no way to gauge how much money it needed to set aside to prevent the rust-out of facilities and equipment. Rather than financial management, public servants focussed on financial administration — a bookkeeping function, far from the core concerns of senior management. Once again, cultural as well as technical changes seemed to be in order.

**14.** I quickly added two more issues as priorities: First Nations' programs, and the environment. In my first report to the House of Commons I drew attention to the long-standing dilemma of Indian and Northern Affairs Canada in reconciling its responsibility to Parliament with its funding arrangements for First Nations. I also drew attention to the problems the federal government was having in finding an effective way to manage environmental programs that involved some 24 departments and the provinces and more than 50 acts.

**My priorities have remained relatively constant over the last 10 years.**

**15.** Collectively, these have essentially remained my priorities over time. I would like to be able to report that all the challenges had been met and resolved during my mandate and that I had moved on to other issues. There has been some progress, but not enough to take the spotlight off these problems.

**16.** One of the added priorities reflected a growing concern about the environment. Canadians were learning more about its importance to their well-being and saw mounting evidence of threats to both the local and the global environment. Parliament responded by creating the position of Commissioner of the Environment and Sustainable Development as part of our Office. This has meant a huge shift in our audit priorities, from a time when environmental issues competed with concerns about economy and efficiency to our present earmarking of resources for environmental audit.

**17.** Other priorities have evolved, but less dramatically. We are still working to improve the government's financial condition by looking at public debt and current-year spending and revenues, auditing revenue collection and administration, and identifying opportunities for savings. We also continue to push for improvements in the long-term

management of debt and in accountability for debt management. However, the booming economy of the 1990s and corrective measures taken by the government have created some breathing space.

**18.** Regrettably, reform of the human resource management regime, an essential piece of public service reform, is unfinished business. The priority this issue warrants is escalating as the challenges increase and as frustration with bureaucracy has begun to drive the delivery of major programs and services to agencies outside the public service.

**19.** Accountability is evolving, but it remains a priority. Through the Estimates process, the government provides at least some information to Parliament about the results of spending — but not enough that is useful. Arrangements that move government services from the core public service to outside agencies and the private sector have created additional risks to accountability: Parliament may end up with less access to information, and responsibility is often diffused when several parties become involved in program delivery.

**20.** Financial management has moved forward as the government has begun to adopt new, modern accounting and financial information systems. The work is slow, and carries technical risks that Parliament's auditor must watch carefully — but this is still good news! The public service culture, however, has shown less advancement, with little movement toward setting measurable targets for government programs and holding public servants accountable for reaching them.

**21.** Overall, my priorities have emphasized the internal structures and processes of government, such as financial management. But we have not ignored the delivery of services to Canadians — indeed, most of our audits over the last 10 years have focussed on service delivery. Nevertheless, I have found it necessary to devote more effort to management problems that cut across the entire government.

## My final report

**22.** This capstone report is my final report as Auditor General of Canada. It outlines the progress I think the government has made in critical areas over the last 10 years, by presenting my priority issues in the following order:

- the debt and deficit;
- the state of the public service;

- the changing structure of government, and management accountability and Parliament, sections of the report that together address my concern about the need to improve accountability and financial management; and
- the environment and sustainable development.

My thoughts on the performance of our taxation programs and First Nations issues are included in a section on how well the government has delivered services to Canadians. I also discuss the role of legislative audit and the future of the Office of the Auditor General.

## SECTION II

# Information to Manage Our Future — The Debt and Deficit File

### Fiscal management is important but no fun

**23.** Fiscal management is not a fun subject. I don't think the average Canadian will ever look up from the television and call to the next room, "Hey, Joe! Come look! They're showing the public debt indicators!" And yet, as I have noted, the management of the public debt has been of overwhelming importance to Canada during my years as Auditor General.

**24.** The size of the public debt determines how much interest we have to pay on our past spending. Money paid for interest is not available to meet today's needs. Left to grow too large, the debt would mortgage the incomes of our children. Even worse, countries that run up big debts get charged higher interest rates by their creditors, compounding the problem.

**25.** My predecessor as Auditor General, Kenneth Dye, called attention in 1987 to the problem of deficit spending and the large public debt it had created. He believed that while reform of financial management — the internal controls on spending — had regained control of the public purse, the really big dollars were outside the boundaries of financial management. He was referring to the 23 percent of government

spending then going to pay interest on the debt — a proportion he found "staggering." Mr. Dye was concerned that the government was not providing Canadians with timely and understandable information on the debt, and he noted that parliamentarians wanted summary-level information that would show the big picture. He complained that although the federal deficit was a key indicator of the government's financial performance, members of Parliament received little information about it.

**26.** As I have noted, when I arrived in Ottawa I was concerned about the failed attempts to improve administrative processes on one hand and the country's financial condition on the other. After 15 years of initiatives to improve the government's efficiency (value-for-money auditing; the creation of the Office of the Comptroller General; Part III of the Estimates; more emphasis on internal audit; the advent of program evaluation; the alphabet soup of initiatives — PPBS, MBO, PEMS and IMAA; and Public Service 2000), whatever efficiencies had been gained left Canada's finances in no better shape.

## We needed a scorecard

**27.** Unfortunately, Mr. Dye's concerns went generally unheeded. By the time I became Auditor General in 1991, the accumulated debt amounted to about $15,000 for every Canadian; the interest payments consumed 27 percent of every tax dollar. Information on the government's performance was still inadequate. In my first report to Parliament, I called for a scorecard that would tell Parliament whether the government was reaching its targets, whether its plans had been upset by unforeseen events, and whether it had accurately predicted revenues and expenditures.

**28.** As I saw it, this was information that Canadians needed to manage the country's future. We needed to know how far we could deviate from the government's deficit reduction plan and still be financially secure. We needed to know if we would be able to cope with an unexpected emergency and still leave a financially sound country to our children.

**Understandable information on the debt and deficit is needed so Canadians can participate in managing the future of their country.**

**29.** In the first few years, we continued to deliver this message and became increasingly specific about the information that Parliament needed. In 1993 we proposed that the government provide clear, concise information at regular intervals and on a consistent

basis — information that covered both the federal and the provincial deficits and debts and incorporated historical trends and comparative data from other countries. We suggested the following five indicators for reporting:

- interest bite, the percentage of government revenues that must be spent to pay interest on the debt;
- program share, the percentage of revenues devoted to program spending as an indication of the extent of deficit spending;
- expenditure ratio, to show how much of the government's spending is supported by borrowing;
- tax bite, the share of Canada's gross domestic product consumed by taxation; and
- debt-to-GDP ratio, to show the ability of the economy to generate enough income to cover the debt.

I thought these indicators would allow the average Canadian to make a fair assessment of the impact of large annual deficits.

**30.** But the government did not take much action in 1993. When the Budget was tabled, we learned that the federal government had fallen short of its deficit target by $8 billion. This was not a first, and the government provided very little information to explain why we were so far off target. In my view, after the government had made its projections it needed to close the loop and explain why it missed the targets. This would encourage it to make its projections more realistic.

## The government and Parliament took action

**31.** In 1994 the government began to act on our recommendations by publishing its first Annual Financial Report. It also opened up its Budget consultation process to allow Parliament and the public more say in developing the government's expenditure plans. Through this process emerged a greater consensus that debt really did matter.

**32.** I was not entirely satisfied, however. The government was still focussed on short-term deficit reduction and was not providing adequate information about the long-term consequences of its decisions. In concentrating on deficit reduction, it was giving too little consideration to the larger questions: How much debt could we sustain over the long haul? How did that fit with our view of taxation and the role of government? I thought Parliament should be involved in developing a vision of that role.

**The big question was how much debt we could sustain over the long haul.**

**33.** And Parliament did become more attentive to the issue. In January 1996, the Standing Committee on Finance noted our concern over the government's past practice of focussing on deficit targets alone and largely ignoring the overall debt that had built up. The Committee agreed that the government's approach was no longer adequate. It also stressed the importance of annual budgets to the long-term future of the country.

**34.** The government made three innovations in the Budget process: it established a contingency reserve, adopted a two-year deficit target, and built a "prudence factor" into its forecasts. The contingency reserve was meant to cover the risks of errors in forecasting, and unpredictable events. The two-year target was adopted to end the government practice of putting off the least palatable parts of its five-year plans until their last two years. The government built in a prudence factor because targets in the past had frequently been missed, and financial markets had begun to lose confidence in the government's ability to stick to its plans.

**35.** The biggest improvements have been a greater discipline in the government and more transparency in the Budget process. Better discipline has allowed the government to live within the revenues it collects. The pre-Budget hearings that are now a regular part of the Budget process improve the public's understanding of the decisions the government must make, and allow the government to receive feedback from Canadians about its intentions. They help mobilize public support for change by including Canadians in the decision-making process.

**36.** The government also publishes more information now on the fiscal state of the country. I have mentioned the Annual Financial Report, which provides information on spending in the previous year. The government has also begun to table in Parliament each year a Debt Management Strategy and a Debt Management Report. And the annual Economic and Fiscal Update provides more information on the debt and deficit before public consultations on the Budget begin.

## A lot remains to be done

**37.** Despite improvements, information still falls short of the best practices in other jurisdictions. The government has adopted a five-year forecast, but other countries make projections several decades ahead.

The United Kingdom provides long-term fiscal projections under its Code of Fiscal Stability, and New Zealand does the same under its *Fiscal Responsibility Act*. In both cases, these are understood to be illustrative projections showing what could happen under particular circumstances, and not forecasts of what the government thinks will happen.

**A scramble at year-end is not the way to ensure economy, efficiency and effectiveness in the use of public funds.**

**38.** Further, if short-term targets like Canada's are based on pessimistic projections, the effect can be negative. Contingency funds and prudence factors may have been necessary when spending discipline was so poor, but now that the Budget is in surplus these planned allowances create big pots of money that sit until the end of the year. Then there is a scramble to spend them. A year-end scramble is not the way to ensure that public funds are used economically, efficiently and effectively. Furthermore, it can pump money into the economy when it is strong and doesn't need the stimulus, rather than saving it for a time when the economy is weak and needs a boost. While it is good practice for the government to make contingency allowances, they need to be realistic to avoid the temptation of a big year-end blowout of spending.

**39.** The Department of Finance plays a key role in managing the debt. It must forecast accurately so that the government can predict how much money it needs to raise through taxation. This involves estimating how the economy will perform and what the revenue implications of changes in taxation would be. Instead of relying on its own economic analyses, the Department now bases its fiscal estimates on a pool of private sector forecasts. The result does not appear to be any more accurate because of the prudence factor — but revenue forecasts now err on the side of pessimism rather than optimism.

## We're not out of the woods yet

**40.** Overall, the 1990s saw continuing improvement in the management of fiscal policy and the reduction of the deficit. The government opened up the Budget process, and it now provides better information about the fiscal state of the country.

**41.** Today, the proportion of its revenues that government has available to meet the present needs of Canadians is larger than in 1991. But we are not out of the woods yet; the federal government debt of over $560 billion remains to be paid. And a surplus can be a

temptation to spend without good planning. The government is still not providing a long-term public forecast that shows the future effects of spending patterns. Under these conditions, it would be easy for the government to veer off course for several years before the consequences came to the attention of Parliament and the public.

**42.** The government needs to build in stricter discipline. It needs to continually challenge ministers and program managers to examine the worth of their programs and how they serve national priorities. Program Review did this, but on a one-time-only basis. Without continuous tending, the woods will again become overgrown — and a lot of the growth may be of questionable value.

**The government needs to consolidate its reforms and maintain them on an ongoing basis.**

**43.** Finally, the government needs to anchor its improvements with an effective role for Parliament. As I noted 10 years ago, internal reform alone will not produce effective fiscal management. Parliament's involvement makes it more difficult for the government to drift into the old patterns that let programs get bigger and bigger until they became unaffordable. Higher visibility of long-term effects can also put the brakes on spending that serves short-term political goals rather than the long-range needs of Canadians. Problems in fiscal management are complex and require solutions on more than one level. I hope that the next few years will see progress toward those solutions.

## SECTION III

# The State of the Public Service

### Good government depends on the good performance of the public service

**44.** The federal public service is Canada's largest, most diverse and arguably most important employer. It helps ministers develop and deliver services to Canadians by identifying policy options, conducting scientific studies, managing and administering departments and agencies, and serving the public. Canada's public service represents an exceptional body of knowledge and expertise. To make the most of it, public servants need to be organized and managed well.

**45.** The public service must be able to attract its share of the country's best and brightest. It must develop, retain and motivate its members to perform to their full potential. Canadians are entitled to nothing less.

**46.** By most accounts, the institution was not functioning well when it entered the 1990s. The decade saw two new initiatives intended to fix the public service: Public Service 2000 (PS 2000) and La Relève. We watched the progress of these reform efforts closely, and recently completed a study of them (*Public Service Management Reform: Progress, Setbacks and Challenges*).

**The federal public service has not been functioning well for a very long time.**

## The 1990s began with a major effort at public service reform

**47.** In December 1989 the government introduced Public Service 2000, a process to reform and renew the public service by making it less rule-bound and more innovative, focussed on achieving results and serving the public. A new management philosophy would decentralize authority and emphasize developing the skills and potential of staff. As one key official commented, PS 2000 was "10 percent legislative change, 20 percent change in systems and 70 percent change in attitudes and practices."

**48.** PS 2000 did make some progress. The *Public Service Reform Act* of 1992 modified the staffing system somewhat and provided for change in the employee classification system. PS 2000 also led to more delegation of authority from the Treasury Board to departmental officials.

**49.** Compared with its goals for human resource management and the high expectations it raised, however, PS 2000 produced only limited results. Weak application of its principles hindered progress. For example, changing the management philosophy depended heavily on the personal leadership of senior officials, but there were no effective mechanisms to ensure that managers observed its basic principles. Furthermore, PS 2000 fell short of its objectives because it lacked a definitive strategy and concrete goals. In addition, financial restraint measures led to a public service strike and seriously weakened labour-management relations. The contradiction between financial restraints like a wage and salary freeze and the basic messages of PS 2000 generated employee cynicism about the depth of the government's commitment to the reforms.

**50.** Public service reform has never been a high priority for politicians. Too often, initiatives to improve performance seem to have been interpreted as reflecting the demands of public servants rather than the concerns of other Canadians. These conditions were to doom a reform program that depended 70 percent on changing attitudes.

## Cutbacks increased the stress level in the public service

**51.** Program Review and other government cutbacks in the mid-1990s meant major changes for the public service, including significant downsizing. Management's attention

focussed largely on the fair treatment of staff who left as a result of work force reductions. While the downsizing did not generate much labour strife, the environment was not conducive to the human resource management reforms intended by PS 2000.

**52.** Public servants who remained were under stress. Many suffered from uncertainty about their future and the future of programs they had been committed to. A deputy-minister-led task force reported in 1996 that many public servants had been shocked and their faith in public service values shaken by the downsizing itself and by the way it was handled. Cuts following the PS 2000 White Paper's assertion that people were the greatest asset of the public service only heightened public servants' distress.

**53.** Stress increased in some parts of the public service because the work force had been cut but not the workload. Half of those who responded to a 1999 survey of public service employees said their workload was reasonable only some of the time or rarely; deputy ministers now see this as one of the most serious issues facing the public service. Moreover, the unforeseen exodus of top-calibre and high-potential employees during the downsizing left skill shortages in various occupational groups, including policy analysts, computer system specialists and engineers. The downsizing and wage restraint measures exacerbated some of the very problems that PS 2000 had been designed to fix, like the need to make employment in the public service more attractive in order to recruit and retain talented people. Constraints on staffing during those years have meant that today's public service has too few young people.

## Efforts to renew the public service are under way once more

**54.** In the aftermath of Program Review, the Clerk of the Privy Council and deputy ministers re-examined the challenges confronting the public service. As they had under PS 2000, committees of deputy ministers studied various issues and produced reports. Priorities were to strengthen the government's ability to develop policy and to continue modernizing service delivery. To meet objectives in these areas, significant problems in human resource management had to be addressed. In 1996 the Clerk introduced a new initiative, La Relève. It was designed to deal with a threatened crisis in leadership arising from factors like the significant "retirement bulge" among executives and others. It was also intended to address the widespread malaise in the public service.

**55.** La Relève, like PS 2000 before it, relied heavily on the leadership of the Clerk of the Privy Council and the community of deputy ministers. There was no master plan as such.

Instead, there was a declared philosophy of "bias in favour of action." Each deputy minister presented a plan of action to implement changes in his or her department. But heavy turnover among deputy ministers muted La Relève's impact, as did a lack of follow-up and reporting on progress, and an absence of effective accountability.

**56.** La Relève appears to have died the same quiet death as PS 2000. The term is still in limited use but no longer prominent in communications, and it seldom appears in departmental plans and reports.

**Although reformers said La Relève was "biased in favour of action," it produced few results.**

**57.** A new Clerk was appointed in early 1999, and once again task forces of deputy ministers were struck. The task forces pursued three of the central issues that La Relève had highlighted — recruitment, workplace well-being, and learning and development. The seventh annual report of the Clerk noted that these task forces were to draw up plans for ensuring that progress continued. The ultimate objective was to make the public service an employer of choice. Over the summer of 2000 the task forces reported their findings, among them an acknowledgement that the job is huge in an environment where workload is already an issue, and it needs to focus on a few elements to reduce the risk of agenda overload. While the three task forces have identified objectives for change, they have not developed specific plans needed to address them. Many initiatives are under way, but they must be prioritized and integrated. Once again, we see extensive study of the problems but too few real steps toward solving them.

## A need to sort out who is responsible for what

**58.** The reform of human resource management systems and practices advanced little over the 1990s. This is a major disappointment, especially considering all the energy invested by so many over so long a time.

**59.** In my view, the efforts of several generations of well-meaning senior officials to streamline and modernize human resource management have been stymied by the tangle of roles and responsibilities of the institutions that manage human resources and by the legislative framework that applies.

**60.** Three major, related issues must be addressed:

- the unduly complex and outdated legislative and administrative framework;
- the fragmenting of human resource management; and
- the need for strengthened human resource management in departments.

**61.** Parts of the federal public service are subject to different, sometimes unique, legislative frameworks governing human resource management. In the core public service, that is, the departments and agencies that work most closely with ministers (some 80 organizations now employing about 146,000 out of 300,000 public servants), staffing is subject to the *Public Service Employment Act* and the authority of the Public Service Commission. This arrangement is aimed at preserving a professional, non-partisan and representative public service. Human resource management in these core organizations is also subject to the policies of the Treasury Board and its decisions as the employer responsible for collective bargaining. These departments and agencies have very little statutory authority to manage their people. They rely on authorities delegated by the central agencies to administer centrally prescribed systems, policies and processes.

**62.** Other government entities known as separate employers are subject to only some parts of this management regime, and have more flexibility to manage their human resources. In 1999, almost one quarter of public servants at that time — Revenue Canada employees — moved to the new Canada Customs and Revenue Agency, created as a separate employer largely to gain freedom from the complex human resource management regime of the core public service.

**63.** The complex legislative framework and authority structure that applies to core departments dates back to the late 1960s, when collective bargaining was introduced. It has spawned an administrative regime that is cumbersome, costly, and constraining, one that needs to be modernized and simplified. The staffing system, in particular, is widely viewed by public service managers as an unreasonable constraint, notwithstanding the Public Service Commission's repeated efforts over the last three decades to streamline it and adapt it to departments' needs. Efforts to reform staffing have been largely nullified by almost three decades of legal decisions on appeals of staffing actions. The net result is a protracted process that impedes managers from getting on with the business of government, while many employees continue to question the fairness of staffing in their workplace.

**64.** The division of responsibilities between the Treasury Board and the Public Service Commission has long been called a hindrance to effective and integrated management of

human resources in departments and agencies. As our April 2000 Report noted, royal commissions have identified this issue repeatedly, going back as far as 1962. Over the years, other bodies have assumed new or additional responsibilities for human resource management, among them the Privy Council Office, the Committee of Senior Officials, and the Canadian Centre for Management Development. In each case, these changes yielded benefits but also made relationships more complex. The Human Resources Council (which represents the community of public service functional specialists) and recent studies by deputy-minister-led task forces have cited this fracturing of responsibility as a serious problem. The June 2000 report of the task force on learning and development, for example, argues that the entire system, not just responsibility for learning, is "fragmented and unco-ordinated" and "needs to be clarified and simplified to provide clear direction and accountability."

**The cumbersome, costly, and constraining framework for managing human resources needs to be simplified and responsibilities clarified, and perhaps decentralized.**

**65.** Our December 2000 audit of the Post-Secondary Recruitment program illustrates this fragmentation. We noted that although it is one of three critical priorities, recruitment has no overall targets or strategies. The Treasury Board Secretariat, responsible for the general size and shape of the government, said it was waiting for individual departments or occupational communities to submit business cases for additional resources. The Public Service Commission said it would hire only for positions identified by departments. Departments indicated that they were seeking direction and support from the central agencies. In the meantime, no one is taking concerted action on this key management priority. I believe the time has come to clarify who is responsible for what.

**66.** Departmental managers also need to assume more responsibility for human resource management. Departments were once subject not only to the policy-making authority of central agencies but also to advance approval of administrative actions they proposed to take. Over several decades, the central agencies relinquished some hands-on control and delegated specific authorities to deputy ministers of departments, who delegated them in turn to human resource specialists and then selectively to managers. Deputy ministers became accountable to the central agencies for their administration of delegated authorities in areas such as job classification and staffing. They typically relied heavily on control-oriented human resource specialists in their departments to ensure that the rules were followed.

**67.** Line managers should rightly be responsible for hiring, training and retaining the people they need, but they must be supported in those responsibilities. This support includes advice from human resource specialists who can help them meet their business objectives, from support personnel who can follow through on the necessary processes, and from information systems that provide useful and user-friendly reports from which managers can forecast, plan, achieve and assess results.

**68.** To ensure that their organizations can operate effectively in today's environment of constant, rapid change and become learning organizations, deputy ministers must make a further significant shift in the way they manage. They must go well beyond responsibility for administering central systems to assume a pivotal, ongoing role in creating and maintaining a healthy workplace. They must ensure that their departments develop and maintain a work force with the competencies and capacity to meet the challenges ahead. If statutory responsibilities were more decentralized, I think these changes would occur naturally as deputy ministers became more self-reliant. Perhaps now is a good time to reflect on the lessons that the new, more independent agencies have learned.

## Solving recruitment problems is an urgent matter

**69.** I have noted several times the urgent challenges facing the public service: an aging population, intense competition for educated employees, and the possibility of imminent retirement by many senior officials who are vital to managing departments and delivering programs and services to Canadians. Over half of today's public service executives can retire within five years, and the groups that would normally replace them are about the same age. This is a potential crisis, given that young workers are under-represented in the federal government; skilled young workers may not view the public service as an employer of choice. The private sector is competing fiercely for knowledge workers and the public sector may not offer competitive salaries for some occupations. Moreover, it takes a long time to develop entry-level workers into managers and executives. Our recent audit of the Post-Secondary Recruitment program left me concerned that the government is not responding quickly enough or broadly enough to these challenges. It says that recruiting of junior officers is only a small portion of its outside hiring, but we note that most other hiring from outside is for fixed, short terms and not the product of a more comprehensive, longer-range plan. I believe the complexity of the staffing process and the frustration with the system expressed repeatedly by managers and employees encourage this short-term horizon and short-term hiring. If this problem — and the underlying lack of clarity in responsibilities — is not resolved, the government and Canadian citizens may pay a heavy price.

## A new classification system is urgently needed

**70.** Staffing is not the only feature of the current regime that the core public service needs to rethink. Extensive efforts have been under way over the last decade to reform a job classification system that not only fails to meet the pay equity requirement for gender neutrality but also does not reflect the nature of work done today in the core departments. It is outdated, too complex and too costly to operate. We believe the Treasury Board Secretariat has made significant progress in tackling this major reform effort. But the new system has not yet been implemented. Departments and the Treasury Board Secretariat need to ensure painstaking accuracy in completing the job. Work descriptions need to be accurate, evaluation results must be valid, and further testing must be carried out to demonstrate to all stakeholders that the final classification standard is gender-neutral and universal. Now is the time to sustain senior management attention if the government is to profit from the progress it has made.

**71.** The Treasury Board Secretariat also has to develop a compensation strategy to support the introduction of the new system. Because the standard is different from the one used to this point, the changeover will affect the pay of many employees. The Board needs a strategy to handle the change and disruption that inevitably will result.

**The government needs to devote enough resources to solve its recruitment problems and to complete its new classification system; otherwise, Canadians will pay a hefty price.**

**72.** Finally, the Treasury Board Secretariat should ensure that enough resources are available to finish the work on the standard. This project has implications for a large part of the federal public service across the country, for decades to come. It will affect billions of dollars in payroll costs, to say nothing of the ability to recruit and retain top-quality people and achieve equitable employment conditions. The Secretariat initially underestimated the complexity of the task and the time and resources needed to complete it. The Treasury Board has indicated that since 1996 it has allocated only $20 million in additional funding; departments have been allowed to take out advances on future funding for another $60 million, which they will have to repay. This is far less money than is devoted to even mid-sized information technology projects designed for things like managing a single department's inventory. It is little wonder that progress has been slow.

## We need to get out of the study phase

**73.** Real advances in human resource management will require systemic, legislative change, as well as changed attitudes, practices and organizational culture. All of these changes must be managed coherently. The government needs to move beyond the pattern that characterized the 1990s — setting up committees of senior officials to study the problem and develop plans, but failing to resolve the issues. The rotation of senior officials exacerbates the situation, as each new appointee begins by re-examining the issues. Given the wave of retirements anticipated at the most senior levels, the problem will not be easy to solve. But a solution must be found if human resource management is to keep up with the challenges and rapid pace of the new century.

## As much attention needed to values and ethics as to management systems

**74.** The federal government relies increasingly on the sound values and ethics of employees to maintain honesty in the public sector. The level of supervision and the number of detailed rules and guidelines that must be complied with have been reduced significantly. The work force is becoming more diverse, new information technologies proliferate, and public servants are given more flexibility to make decisions. At the same time, new service delivery arrangements have adopted values that are more characteristic of the private sector and that may conflict with traditional public service values; and partnerships with the private sector are increasing.

**75.** I believe the federal public service has a sound base of values and ethics. However, the major changes that continue to occur are putting them to the test. My Office has regularly reviewed the government's efforts to maintain and promote sound values and ethics in its work force.

**76.** A 1996 report by John Tait, the former Deputy Minister of Justice who headed a task force on ethics in government, identified a consensus among senior officials that maintaining sound values and ethics will take effort. My October 2000 Report to Parliament concluded that most such efforts are still at a preliminary stage. Moreover, some of the key efforts will entail a major cultural change that could take a generation.

**77.** Values and ethics initiatives have proved to be slow and difficult to institute, partly because of the cultural change they invariably imply. People in authority may perceive such change as a threat. For example, some managers may feel threatened if employees can go to an outside party to report ethical concerns.

**78.** To buttress ethical conduct and ensure that all concerns are voiced, new federal mechanisms may be needed. These include ombudsmen, ethics counsellors and support centres, integrity commissioners, and recourse mechanisms for good faith intervention. They need not be costly or hinder efficiency. To be effective, though, they do require that existing power structures share their power and accept more oversight — a move that may be difficult to sell to authorities.

**79.** The most important factor, however, is that many senior officials acknowledge the need to maintain values and ethics but may not recognize a problem in their own organization. Faced with heavy demands on their time and limits on their resources, they may balk at yet another management initiative. These officials may not believe there is a business case for what perhaps they see as a major expenditure of time and resources.

**Canadians deserve nothing less than the highest standards of conduct in government.**

**80.** In my view, there are compelling red flags that indicate a need for more work on values and ethics. For example, "The View From Here," a 1998 publication reflecting the views of 30,000 mid-level public service managers, reported "continuing cynicism, embitterment and lack of trust." We have alluded to cynicism in reporting that a significant percentage of sole-source contracts have knowingly been let in violation of the government's contracting regulations. We have also noted that many officials who have expressed skepticism about the need for values and ethics initiatives have not themselves undertaken the work of verifying that their organizations meet a high standard in this regard.

**81.** I believe that maintaining and promoting sound values and ethics are a vital part of good governance and ultimately are needed to maintain public confidence in democratic institutions. We do not underestimate the difficulty of successfully managing values and ethics initiatives. Creating the institutions, engaging the active support of political leaders and senior managers, and overcoming skepticism among public servants will be major challenges. However, Canadians deserve nothing less than the highest standard of conduct in government. And it is this standard by which our audit office will continue to assess the federal government's values and ethics.

SECTION IV

# Changing the Structure of Government

## Improving the management of Crown corporations

**82.** Crown corporations represent a significant portion of the federal government's activity, helping it to achieve both public policy and commercial goals. At present, 41 Crown corporations (excluding subsidiaries and the Bank of Canada) employ around 70,000 people, manage over $60 billion in assets and receive annual budgetary appropriations of $3.8 billion. With 18 corporations folded or divested and 9 new corporations created in the past ten years, Crown corporations continue to be a dynamic, viable and relevant way of delivering government programs.

**83.** Significant failures and financial crises in Crown corporations led in 1984 to Part X of the *Financial Administration Act* (*FAA*), a new control and accountability regime. The management of Crown corporations has improved steadily since then, as we found in our special examinations (a type of value-for-money audit of Crown corporations carried out every five years). More work is needed in areas such as strategic and corporate planning and performance measurement and reporting. Nevertheless, Part X of the *Financial Administration Act* has had a positive effect on the management and accountability of Crown corporations.

**84.** But an accountability and control regime is only as strong as its implementation. In my December 2000 Report, I highlighted weaknesses in governance that remain and that need urgent attention if Crown corporations are to meet future demands for performance. It is essential that the boards of directors of Crown corporations be strengthened and directors be engaged in the selection of a chief executive officer. The board of directors represents the cornerstone of the accountability regime. Directors must have the skills, knowledge and experience needed to fulfil their role. The government needs to make sure it has the ability to review and challenge corporate plans and determine whether the purpose of each corporation is still relevant to the government's current needs.

**85.** Transparency is part of a good accountability framework. While the *Financial Administration Act* provides for reporting, Crown corporations could be doing more. They could do better at disclosing their environmental and governance practices — including executive and director compensation — as well as the results of special examinations and mandate reviews. Moreover, the Treasury Board could provide more direction through regulations, as the *Financial Administration Act* allows it to do.

**86.** I encourage Parliament to be more active in calling Crown corporations to account for their performance, their effectiveness in fulfilling their mandates, and the ongoing relevance of their mandates.

**87.** I encourage the government to not only strengthen the implementation of Part X of the *FAA* but to also apply it more broadly. The government provided certain corporations with greater independence by exempting them from the control and accountability provisions of the *Financial Administration Act*. The opposition of our Office to this has been on record for some time. All Crown corporations — irrespective of their strategic and operational independence from government — should be subject to a sound accountability regime. Part X of the Act provides for such a regime in its provisions for clear delineation of roles and responsibilities between the government and the corporation, establishment of five-year plans and objectives, reporting against the objectives and targets, and a comprehensive regime of both internal and external audit.

**88.** As government moves more and more to delivery of services by arm's-length entities, it is essential that it do so with provisions for sound control and accountability. I urge it to draw on the successful accountability and control framework for Crown corporations and similarly establish new alternative service delivery and governance arrangements — many of which are now operating without an adequate regime of accountability and control.

## Delivering services to Canadians

### The search for new ways to deliver services

**89.** The debt and deficit crisis forced the government to become smaller and more affordable, and more businesslike in its approach to administration. From assuming that all public services had to be delivered in the traditional way — by a government department under the *Financial Administration Act*, staffed with people hired under the *Public Service Employment Act* — the government moved in the early 1990s to thinking about new and more efficient ways to do business.

**90.** There was a widespread belief that the government had too many internal rules, that agencies were not responsive to the clients of their services, and that the private sector offered specialized expertise that could improve government services and lower their costs. In addition, the government's human resource management structures were seen as too cumbersome and confining.

**91.** In December 1989, the government announced the first experiment — special operating agencies established as pilot projects, among them the government's management consulting service to departments. These agencies continued to report to deputy ministers, but they were freed from some of the government's administrative requirements in return for achieving specific results. By the end of 1993, the government had approved the creation of 15 such agencies; there are 19 now, about half providing services exclusively to the government and the rest providing limited services to the public.

**92.** Notwithstanding these special operating agencies that exist today, the experiment never really took off. Only about 5,000 government employees were affected. Instead, reform efforts have led to new governance arrangements, privatization of former government agencies, and direct purchase of services from the private sector to replace support services the government used to provide for itself. In these new governance arrangements, the federal government either shares program delivery in collaboration with other parties or delegates key planning and operational decisions to another party.

### New arrangements put parliamentary oversight and the public interest at risk

**93.** In 1999, we found that the federal government had entered into at least 51 collaborative arrangements with other levels of government or the private or voluntary sectors to deliver services, at a cost to the federal taxpayer of about $4.5 billion each year.

Examples include the Canada Infrastructure Works program that involved the provinces, local governments and the private sector and cost $2.4 billion over six years, and the Labour Market Development Agreements with the provincial and territorial governments that cost more than $7.7 billion over five years. We also found 26 arrangements where the federal government had delegated decision making to a partner. These include the billion-dollar Canada Foundation for Innovation, in operation from 1997 to 2003, and the Canada Millennium Scholarship Fund, which was set up in 1998 and will spend $2.5 billion over 10 years.

**94.** We expect that all such arrangements would respect the public service values that ensure parliamentary scrutiny of all federal spending, as well as fairness, impartiality and equity in providing service and enforcing regulations.

**95.** Our audits have found that the federal government's collaborative arrangements with other organizations lacked satisfactory performance information. Often, essential accountability mechanisms — such as agreement on the form and content of annual reports — were not in place, and the federal government had not adequately assessed whether its partners could deliver their side of the arrangement. Better mechanisms to protect the public interest were needed, including provisions for public input and redress of citizen grievances.

**96.** In arrangements where the federal government had delegated decision making to a partner, we found little reporting to Parliament on performance. Performance expectations generally were not related to outcomes, and there were no baselines against which to measure progress and determine whether the arrangement was working. Other cases lacked adequate measures to protect the public interest, such as complaint and redress mechanisms and rules on conflict of interest.

**97.** Further, when the federal government reorganizes, it can create other problems. In 1997 the government established the Canadian Food Inspection Agency as a separate employer, merging parts of Agriculture and Agri-Food Canada, Health Canada and Fisheries and Oceans. These three departments transferred over 4,500 employees to the new Agency and expenditures of about $330 million a year. The Agency was granted certain freedoms to manage its finances, human resources and contracting, in return for improving accountability through a corporate plan that included objectives, performance expectations and an annual report on its actual achievements. After three years, the Agency still is not providing a clear and complete picture of its performance to allow Parliament and others to judge how well it has carried out its role.

**98.** In creating the new Canada Customs and Revenue Agency, the stated goal again was to improve services to Canadians. Eligible taxpayers wanted their child tax credits returned faster, importers wanted faster clearance of goods at the border, and corporate taxpayers wanted audits to be expeditious. While the structure set up to manage the new Agency appears sound, its first performance report is not due until later this year. I hope the report will really allow Parliament to tell whether the Agency is achieving its objectives.

## Other approaches create commercial risks

**99.** The federal government has also tried other approaches to improving service quality and lowering costs. The most striking is the straightforward commercialization of services, turning a government agency into a private corporation. A major example was the recent creation of NAV CANADA, a not-for-profit private corporation established to operate Canada's civil air navigation system.

**100.** In 1997 we audited the transactions involved in creating NAV CANADA. We concluded that the government had not taken adequate steps to ensure that it received full value for money. It received $1.5 billion for the assets and the operating monopoly it transferred to NAV CANADA, but Transport Canada's own financial advisors estimated the value of this going concern at $2.4 billion. Moreover, the transfer costs were high, with pension liabilities between $145 million and $275 million. Transport Canada did not obtain a formal valuation of the entity by a qualified professional, nor an outside opinion on the quality of the financial information it used. When it makes this kind of deal, the federal government needs to ensure that it does not sell public assets for less than they are worth and that it obtains complete and competent financial analyses.

**101.** In a similar situation, National Defence contracted with a private consortium in 1998 to take over Canada's military pilot training program. The NATO Flying Training in Canada program used government funds to finance training capacity beyond Canada's needs in order to supply training to other NATO countries, sharing the costs with them and thereby lowering Canada's overhead costs. At $2.8 billion over 20 years, the deal may prove to benefit all the countries involved. However, we found that when the government paid the contractor for assuming risks, it had done a poor job of defining them and calculating their worth. The government also violated its own contracting regulations by awarding the work to one supplier without seeking competitive bids from other potential suppliers.

**102.** On the positive side, the government did a good job of managing commercial risk in contracting out the fixed link bridge to Prince Edward Island. The government's aim was

to cap the existing subsidy to the ferry service and then transfer it to the private sector in return for constructing the bridge and operating it for 35 years. After that, the government is to end the subsidy and take over the ownership and operation of the bridge. We found that Public Works and Government Services Canada had adequately protected the Crown against potential cost overruns and withdrawal of support by the private sector contractors. It had also provided for follow-up of environmental requirements and ensured that it would receive sufficient information on the project.

**103.** That example notwithstanding, if the government is going to continue entering into mega-deals that trade off taxpayers' assets and create monopolies, it needs a better management structure for the purpose. In particular, it needs to maximize its use of the competitive marketplace. Before it privatizes a service, the government needs to be sure that the marketplace can provide for competition. It also needs to build up its capacity for commercial analysis so it can assess the costs and benefits of complex deals whose terms may well be fixed for several decades.

### It's too early to tell how well the new arrangements work

**104.** Most of the new agencies and arrangements are too recent to have established a track record. We do know that the need for improvement is greatest in setting performance targets and reporting on their achievement. Without a management structure that includes these elements, it is unlikely that the government can substantiate its claims that its actions have made a difference. And without a complete management structure in place, Parliament cannot oversee spending, and public accountability is thereby weakened.

## Fixing the "head office" of government

### From command and control to active monitoring

**105.** The federal government does not have a head office like those of corporations; our system of government makes Cabinet ministers individually accountable for many of the government's activities and collectively responsible for many important decisions. Nevertheless, to be efficient the government must co-ordinate the management of its operations and help departments improve their management practices. The Treasury Board — a committee of ministers — carries out those responsibilities assisted by its Secretariat of public servants, establishing government-wide standards for good management and supporting the exchange of best practices among departments.

**106.** In preparing the government's annual spending plan (the Estimates) for Parliament's approval, the Treasury Board traditionally has had to reconcile competing demands for resources. The Secretariat provides Treasury Board ministers with analysis and advice to support their decisions on departmental spending.

**107.** Over the last 20 years, the Treasury Board has moved away from the traditional "command and control" that featured detailed policies and approval of individual transactions. It began the 1990s with reforms intended to make management throughout the government more effective — delegation of more authority to departments, a greater focus on client needs, better co-operation with departments, a move toward improving service to the public, and initiatives in alternative service delivery. By the mid-1990s, fiscal pressures had led to cutbacks that culminated in the in-depth review of all government programs. Program Review led in turn to growing pressure from departments for decentralization and relief from detailed procedures.

**108.** The Treasury Board responded to those pressures with a more hands-off approach to departmental decision making. In 1997, Treasury Board Secretariat officials told the Public Accounts Committee that they were not in the business of monitoring departmental performance; that was a job for deputy heads of departments. But our audits indicated that departments were not always equipped to assume more responsibility: smaller departments and agencies, for example, had difficulty managing complex, high-risk technology projects. And where the Treasury Board had delegated policy making to departments, some did not meet accountability requirements and no one reviewed program performance.

**109.** By the end of the 1990s, the pendulum had begun to swing the other way. The government designated the Treasury Board, together with the Secretariat, to be a management board. In March 2000, the President of the Treasury Board tabled *Results for Canadians*, setting out a management framework for government and defining the role of a management board. This is not a change in what the Treasury Board does but in the way it does it. The operating basis is the active monitoring of departmental control systems. In active monitoring the Secretariat tracks the status of a department's controls and the adequacy of its expenditure management frameworks so it can act early when it sees a risk to controls. Taking this approach can restore the balance between control and initiative, lost in recent years.

## Better radar is needed

**110.** With the era of command and control over, the new era of active monitoring requires that the Treasury Board quickly equip itself with good radar. Our audits have found that

during the 1990s the Treasury Board approved huge expenditures by departments that were based on flawed business cases, apparently without effective challenge by the Secretariat. For example, our recent audits of National Defence capital projects approved by the Board found major deficiencies in the options analyses that supported decisions. Our 1996 audit of the Canadian Automated Air Traffic System found that $230 million was spent before requirements had even been finalized — and before 11 significant issues between the contractor and the government had been resolved. The audit found that the project was restructured — increasing the price and reducing what the government would get — on the basis of financial information that was not fully disclosed to Treasury Board ministers. Failure to move ahead with a more active approach would allow these sorts of management lapses to continue into the future.

**111.** It is evident that while active monitoring calls for less oversight than command and control, it will take more than the current level of effort. The head office radar has to work before ministers can home in on problems. The recent problems at Human Resources Development Canada in managing grants and contributions were partly a result of radar that had been defective for years. Treasury Board officials are now concerned that the Secretariat may lack the capacity to play its role on the management board. In financial management and other areas, it lacks the needed mix of skills and people. Turnover — endemic across government — is too high and the workload too heavy. New programs like alternative service delivery add to the burden in requiring the Secretariat to conduct new and more sophisticated analyses.

**The Treasury Board Secretariat needs to strongly assert its active monitoring of departments.**

**112.** Members of Parliament who have talked to me about the role of the Treasury Board are confused about what the Secretariat is trying to do. It would be useful if the Secretariat consulted members for their views on its role. I firmly believe that the Secretariat should aggressively pursue active monitoring — with the emphasis on "active." Our audit reports are filled with examples of failure to get the best value from spending when the Treasury Board Secretariat was taking a hands-off approach. While a rule-bound bureaucracy is undesirable, it is time for the government's head office to get involved more actively in confirming that departments are delivering programs with economy, efficiency and effectiveness.

SECTION V

# Management Accountability and Parliament

## What is management accountability?

**113.** There are two basic types of accountability in government: political accountability and management accountability. Political accountability is the answering by ministers to the House of Commons and by members of Parliament to the citizens who elected them. A Cabinet that cannot maintain the confidence of the House of Commons will fall, and members who do not maintain the confidence of their constituents will not be re-elected. While there are proposals for improving political accountability — an elected Senate, for instance — there is little doubt that it is strong in Canada and that governments are accountable to the electorate.

**114.** Management accountability is more diffused throughout the government. At the lowest level, public servants answer to their superiors for getting things done and using resources responsibly. Deputy heads answer to ministers for the work and the well-being of entire departments and agencies. Ministers answer to the Prime Minister, Cabinet and the House of Commons for the management of their portfolios. Parliamentary committees can call ministers and public servants to answer for the use of funds voted by Parliament, an important part of Parliament's oversight role.

115. Strong management accountability requires, among other things, information on what is being spent to achieve specific objectives; information on what has been accomplished; and reporting of that information within departments and agencies and to Parliament. Because ministers are responsible for the administration of their departments, political accountability and management accountability merge at the top of the system.

## Being responsible for the public trust and public money

116. Citizens expect their government to discharge the responsibilities the voters have given it, to use public money prudently, and to exercise due process and propriety in its spending. Setting objectives, keeping track of what it has done and the results it has accomplished, and informing Parliament are the building blocks of accountability. When this foundation is in place, it forms a basis for the trust and confidence of citizens in their government. A major responsibility of my Office is determining for Parliament whether this information exists and how reliable it is.

117. Our Office is also concerned about the quality of information that public service managers use. Good information is the basis for managing government programs with economy, efficiency and effectiveness and ensuring that due process is followed in decision making. Information is the current that charges accountability in government.

118. The battery, however, is low. The federal government has been struggling for decades with its inability to provide financial and non-financial performance information. These struggles have been reported several times, by the Glassco Commission in 1962, the Lambert Commission in 1979, our Office in 1976 and again in 1987, and the government's comptrollership panel in 1997. The Minister of Finance and the President of the Treasury Board have strongly supported initiatives to improve financial information for decision making, among them linking financial and non-financial performance information.

119. The need for performance information warrants thorough consideration, and so does reporting to Parliament. Neither has shown satisfactory progress.

## Managing for results has shown only spotty progress

120. Taxpayers want to know that government programs are producing the results their members of Parliament expected in passing legislation or voting funds. Moreover, setting an objective and managing toward it are fundamental elements of good management that

require a clear and concrete idea of the desired result, and information on the progress made and resources consumed toward achieving it. As elementary a concept as this is, it is not how governments have been run. Historically, in administering programs, governments have been more concerned about staying within the rules and regulations and ensuring that their budgets are not overspent.

121. The idea that governments should manage for results is hardly new, however. Attempts to measure government performance span almost 40 years, since the Glassco Commission's report in 1962. The Treasury Board Secretariat began in the early 1970s to promote performance measurement as the basis for planning, decision making and improving management. And the President of the Treasury Board announced in 1995 that the government was committed to delivering programs that work, by moving from a focus on rules to a focus on results. Encouraging departments to move in this direction, the government has since launched a number of initiatives: reform of the Estimates documents, more emphasis on service quality, and the Modernization of Comptrollership initiative. In spite of these attempts by head office, however, not enough has been happening at the coal face.

122. Our first look at the government's current initiative to manage for results was in 1997. We found that attempts at managing for results, let alone successes, were not widespread. Some managers were measuring results, reporting that information, and using it to improve their programs, but this sort of management was limited, overall. We concluded that continuing attention would be needed before progress could be made.

123. We followed up on that audit in 2000. We expected that by then most managers would be trying to manage for results and that many would have good systems in place. We found some progress in a few areas, but managing for results was clearly not yet the norm in the departments we audited.

**Management is too often stuck in a perpetual planning phase, developing performance measures. "Better" has become the enemy of "good enough."**

124. We did observe that measuring results is now a clear and well-accepted concept in the federal government. Attempts in the 1970s and even the 1980s did not enjoy sustained support from the highest levels. During the 1990s the Treasury Board President and the Board showed greater commitment. Every year since 1995 the President has reported to Parliament on the government's progress toward managing for results. The government

underlined its commitment in the Secretariat's 2000 publication, *Results for Canadians: A Management Framework for the Government of Canada*.

**125.** While the concept of managing for results is clear, management too often seems stuck in perpetual planning. Departmental officials still tell us they expect to make more use of performance information "soon" or to start "next year" to use performance information and identify the costs of achieving results. It seems that as soon as a framework for performance management is almost complete, it is scrapped and redesign begun. In some departments, frequent turnover of ministers and deputy ministers often triggers a reconsideration of the entire framework developed under the previous incumbent. Other departments seem to be on a quest for perfection. It is time that departmental managers considered the old saying, "Better is the enemy of good enough," and stopped trying to design ever better ways to measure. It is time to start using ways that are "good enough" and improve them through hands-on experience.

**126.** The "head office" of government, the Treasury Board Secretariat, has undertaken many initiatives that support managing for results but none has had the desired effect. The Secretariat itself does not use departmental performance information systematically in its own analysis and decision making. Moreover, the Secretariat has not identified the results it expects to achieve in its progress toward managing for results. It seems to have no definite plans, targets or timetables.

**127.** These gaps are not the cause of a lack of progress, but the symptoms. The main barrier is less a technical than a cultural problem: there is little pressure at any level to make more performance information available. Public servants detect this, and moreover, are not inclined to produce information that could embarrass their ministers. The accountability battery thus never gets charged up.

**128.** There is enough evidence, I think, to show that measuring results is not impossible given the will to do it. In our audit last year we identified 10 areas that made use of information on results and four that used performance information routinely to improve the design and operation of programs. In particular, we noted the following:

- The Commissioner and senior officials of Correctional Service Canada were committed to obtaining information on results, analyzing and explaining results, and using the information they obtained. There was a strong buy-in by middle management, and the pay-at-risk initiative was used to focus the Service on achieving results.

- Agriculture and Agri-Food Canada had established a "dashboard" of performance indicators that were monitored by the Deputy Minister. Senior managers were closely involved in the development and use of performance indicators.
- Industry Canada had designated assistant deputy ministers to be champions of its strategic objectives. The Deputy Minister had reinforced the message by basing resource allocation among programs on their ability to show results.

These examples show that progress is possible — where there is senior management attention and will.

## Financial management is improving, slowly

**129.** A long-standing priority of our Office has been to encourage better financial management in departments. Public servants, ministers, and ultimately taxpayers need to know what a government program costs before they can know whether they want to keep paying for it. They also want assurance that money given to the government is safeguarded and used only for approved purposes. In 1997, we carried out a study to determine what financial management tools the government needs today and those it will need in the future. We called the results of our study a Financial Management Capability Model; it sets out our basic expectations for financial management in government. In brief, we expect government organizations to be able to deliver in three areas:

- Risk management and control. An organization must be able to identify anything that could put at risk its ability to achieve its objectives, and it must establish a framework for managing and controlling those risks.
- Information. The organization must manage and protect the integrity of its data and be able to produce the type of information managers need to conduct their business and account for how well they have performed.
- Management of resources. Organizations should be able to achieve results economically and efficiently.

**130.** Our model has five stages of development, or maturity, as a basis for assessing how sophisticated an organization's financial management is. After the start-up level, the most basic stage is what we call the control level — the organization has complete, timely and accurate financial data and can carry out its basic stewardship responsibilities. It can keep track of its spending and its assets and ensure that spending is only as authorized.

131. Government departments, however, have not fully achieved even this basic level. They do not check up on their own control systems well enough, increasing the risk to their financial assets. Departmental managers have told us that because financial data are not always timely and accurate, they keep track of spending in their own "black books."

132. The next level of sophistication we call the information level, essential as a basis for many of the government's current improvement initiatives. An organization at this level can both measure and manage its financial risks. It can also generate information on the cost of producing a product of a given quality or delivering a service at a given level. Departments we have examined are attempting to develop the tools they need to reach this level, but most have not spelled out how they will integrate financial management with their other management practices and how financial management is to support the organization. In particular, they have established few links between costs and results. Without those links, managers will remain limited to the traditional patterns of obtaining resources from Parliament and administering them without overspending the budget — while making sure to spend the full amount they have been given. A culture of achieving the best possible results at an acceptable cost will not develop.

133. Nevertheless, I think we can see progress. The government is now working very hard on its Financial Information Strategy, and devoting a huge amount of resources to modernizing departments' financial information systems and moving to accrual accounting. From merely accounting for assets as expenditures when they are acquired, the move to accrual accounting will see departments record the costs as the assets are used up. This will help them establish closer links between costs and results. It will also give them better information for making day-to-day decisions and improving their management of assets.

134. While I fully support the move to accrual accounting for the purposes of its financial reporting, I am concerned that the government has not yet fully considered the implications for budgeting and Parliament's appropriation of funding. We may therefore be faced with reporting of the planned and the actual amounts on different bases of accounting. Besides the obvious implications for the quality of reporting, this may detract from the government's overall objectives for its Financial Information Strategy. It needs to address this as a priority.

135. The government has launched its Modernization of Comptrollership initiative to integrate financial and non-financial performance information, identify and manage risks, and ensure that it has appropriate control systems in place. Although the Treasury Board

believes existing data to be in better shape than our audits indicate, for the most part it sees the state of financial management as we do.

**136.** The problem, then, is not deciding what needs to be done but following through. Reforming financial management will not be easy, and it will take a long time. Successes achieved in other jurisdictions — Great Britain, Australia, New Zealand and Alberta — had as common threads a strong political demand for change and a close monitoring of progress. And improving financial management was just one part of a comprehensive effort to improve management in general. Continued funding of programs as well as the pay of managers were linked to achieving agreed results within the forecast costs.

**Where government financial management has improved, the change has been led by strong involvement at the political level.**

**137.** In Canada, there is a danger that financial management will continue to be perceived as an isolated, unimportant function that senior managers can delegate to specialists and then give it little attention. Parliament, ministers and deputy ministers, as well as the Treasury Board Secretariat and the Privy Council Office, must all take on the challenge if the latest initiatives are to succeed

## Reporting performance to Parliament is a fundamental problem

**138.** Information on performance and costs is supposed to serve not only ministers and officials who manage programs but also Parliament in its oversight role. Parliament needs enough information to hold ministers accountable for the government's use of resources and the results it achieves. Efforts to improve reporting to Parliament go back to 1981 and the design of Part III of the Estimates, to inform members about departments' plans for spending and the results achieved by funds already spent. In 1995, the current Improved Reporting to Parliament Project began.

**139.** We can see some limited progress. Parliament's need for information is much clearer today than in 1990. And more than they did 10 years ago, senior government managers acknowledge that need. But the move from principle and concept to practice has been a problem. The last four years have served as a period of experimentation, perhaps necessary, but now it is time to move ahead.

**140.** Given the painfully slow progress of departments toward managing for results, it should come as no surprise that Parliament is still not informed enough about the results of government programs. In our 2000 Report we published an index of achievement in reporting to Parliament. It showed whether objectives were clear, specified the magnitude of change expected and the time frame, were outcome-oriented, and were plausibly linked to the government program involved. The results show that not much has improved since 1996. Statements of performance have become more outcome-oriented, but there has been little progress in setting time targets and even less in stating how much change is expected.

**141.** The trend in reporting accomplishments to Parliament is equally flat. About a third of the departments have improved, but about a quarter rated lower in 1999 than in 1997. Departments still tend to focus on reporting their results by year, making it difficult to tell whether long-term programs are making a difference. Nor do departments benchmark themselves very often against other service providers or jurisdictions, or discuss the influence of their programs on the outcomes Canadians want. Reporting is still preoccupied with "good news" vignettes from the preceding year, thus lacking balance and, in turn, credibility. Our audits show that in their reporting to Parliament, National Defence and the Canadian International Development Agency, for example, have tended to concentrate on good news at the expense of a comprehensive and balanced account of program results.

**142.** I think there are three basic reasons for the lack of progress:

- Public servants still have not completely accepted management based on measuring results and reporting their achievement to Parliament.
- Reporting performance to Parliament has political consequences and there is a fear that performance reports could become a political tool of ministers or the Opposition.
- Few incentives for reporting have been offered to individual managers or to departments as a whole. Nothing really happens to an organization that does not improve its reporting. In fact, because of our political culture, poor reporting is safer.

**Our political culture makes poor reporting safe reporting.**

**143.** Over the last 40 years, responsibility for results has been accepted in principle but has shown weak follow-through to performance measurement and reporting. The hill of

financial management reform will be a steep climb. The problems have persisted through many changes of government and many sets of economic objectives. In light of the modest progress to date, a stronger initiative is needed. In my December 2000 Report, I called for legislation to consolidate the progress made so far and to send a clear signal that reporting financial and non-financial performance information is a fundamental requirement for accountability to Parliament.

**144.** If Canadians want to get more value for their tax dollar, they need to insist that the federal government complete as quickly as possible its undertaking to improve reporting to Parliament.

## SECTION VI

# Environment and Sustainable Development

### A long-standing concern

**145.** When I was appointed Auditor General of Canada, I identified the areas where I wanted to make a difference during my term. In my first report to the House of Commons in 1991, I said:

> Many of the issues facing government — the environment, the deficit, relationships with First Nations, the interaction of different levels of government, and so on — will shape not only the immediate future but our legacy to future Canadians . . . . I want to make a difference.

**146.** More and more in the past decade, the Office applied audit and accounting principles and procedures to environmental and sustainable development concerns. Starting with that first report, for example, I told Parliament that the federal Department of the Environment had not sorted out with the provinces their respective responsibilities for enforcement, an area of shared jurisdiction. I have pointed to a lack of specific goals and deadlines in remedial action plans for cleaning up the "42 hot spots" in the Great Lakes; this was slowing down progress in dealing with the serious toxic pollution of the Lakes. I have reported that a $250 million, five-year program to clean up high-risk, contaminated "orphan" sites ended with only 11 of the 48 high risk

sites fully remediated and no plan for dealing with the rest. I have stated that the liabilities associated with federal contaminated sites are substantial and could materially affect the government's reported financial condition. Problems identifying and cleaning up federal contaminated sites continue.

## An expanded mandate

**147.** I welcomed the government's amendments to the *Auditor General Act* in 1995 that strengthened accountability for managing the environment and sustainable development. The amendments established the position of Commissioner of the Environment and Sustainable Development in the Office of the Auditor General. They also required ministers to table sustainable development strategies for their departments in the House of Commons and to update them every three years. The Office of the Auditor General was called upon to consider environmental effects in its audits and report significant findings. Environment became the fourth "E" in our work, along with economy, efficiency and effectiveness. Finally, the amendments authorized the Auditor General to receive petitions on environmental and sustainable development matters, and required ministers to respond to these petitions within 120 days.

## The Commissioner of the Environment and Sustainable Development

**148.** I appointed the first Commissioner of the Environment and Sustainable Development in 1996. The Commissioner's role is to monitor departments' progress toward sustainable development and report on it to the House of Commons. The Commissioner has presented four reports to the House that identified some successes, some failures and some works in progress. For example:

- Canada has met and in some cases exceeded its obligations under the *Montreal Protocol* on ozone-depleting substances. Canada compares favourably with other countries in its influence and action on the international agenda. It has also made progress on its domestic policy commitments.
- Although a strong proponent of international action on climate change and biodiversity, Canada has failed to meet its commitments from the 1992 Earth Summit in Rio de Janeiro. Nor is it meeting domestic commitments to act on toxic substances and air quality.
- Departments are in the early stages of building environmental and sustainable development considerations into the way they do business. They have taken the first steps but need to accelerate their efforts.

**149.** The Commissioner's reports have identified three key weaknesses in the federal government's management of environmental and sustainable development issues: gaps between commitments made and concrete actions taken; lack of co-ordination among departments and across jurisdictions; and inadequate review of environmental performance and provision of information to Parliament.

**There are gaps between commitments made and concrete action taken.**

**150.** Canadians have been at the forefront of thinking on environmental and sustainable development issues, domestically and internationally. However, we have been less effective at turning from thinking to acting — at finishing what we start. The federal government's performance falls well short of many of its stated objectives.

**151.** The chapter on smog in the Commissioner's 2000 Report illustrates the shortfall. Although the federal government and provinces agreed on a plan to reduce ground-level ozone — a key component of smog — they never agreed on how they would carry out the plan.

**152.** Nor is smog an isolated example. Our environmental audits have identified similar failures to follow through on important issues like climate change, toxic substances and biodiversity. Although Canadian governments agreed in 1995 to a National Action Program on Climate Change, in 1998 we found that instead of having been reduced to their 1990 levels as promised, greenhouse gas emissions were actually increasing. We found that few federal departments had established plans for managing toxic substances, and the federal government had not met its commitment to develop a policy or strategy to reduce risks from pesticides.

**There has been a lack of co-ordination among federal departments and across jurisdictions.**

**153.** Some of the most pressing issues facing governments today cut across departmental mandates and political jurisdictions. Effective co-ordination is essential to meeting our sustainable development challenges — and governments are not very good at it. In 1990 my predecessor asked about Canada's environment, "Who's minding the store?" Ten years later it still isn't clear. No one federal department has been assigned to lead the greening of government operations, including leadership of sustainable development strategies.

In 1999 we found that federal departments were deeply divided on how to manage toxic substances; the behaviour of some departments was in fact a major impediment to the effectiveness of federal programs. Nationally, the federal government and the provinces have entered into environmental agreements that lack requirements for assessing whether agreements were fully implemented and functioning as intended.

**Parliament does not receive adequate information.**

**154.** Good information is critical to making good decisions: in setting priorities, designing policies and programs, managing operations, assessing progress, and reporting on accomplishments. The current base of environmental information is not up to those tasks. Although the federal government is the largest enterprise in Canada, it has only rudimentary information on its vast operations and their environmental consequences. The government does not know its environmental impact and the environmental costs its operations impose.

## Sustainable development strategies

**155.** The federal government has a tremendous influence on Canada's environmental and sustainable development prospects. It shares responsibility with the provinces for establishing the legal framework that affects the way we use the environment, and it provides a range of services and programs that contribute to the social, economic and environmental well-being of Canadians.

**156.** The sustainable development strategies of departments are a new tool for greening the federal government. The intent was that they would help each department broaden its perspective on what it does and how it does it — to take environmental, economic and social considerations into account more systematically in its policies, programs and operations, turning sustainable development from talk into action.

**157.** In 1997, 28 departments and agencies prepared strategies for tabling in the House of Commons; 24 were required by legislation to prepare them, and four others — including the Office of the Auditor General — prepared them voluntarily. But progress has been slow. In October 1999, almost two years after the tabling of their first strategies, departments reported having completed only 20 percent of what they had said they would do.

**158.** Departments need to improve their capacity to deliver on their sustainable development strategies. One approach would be to use a management system that requires an organization to define its goals, develop plans and targets, use its environmental management system in day-to-day operations, monitor its own performance, and conduct periodic reviews to improve its management. In 1999, we reported that a sample of departments had applied about one third of practices in the ISO 14001 standard for environmental management systems. In 2000 that had increased to one half.

**159.** Departments are required to update their sustainable development strategies every three years; the first update was due by December 2000. In this year's report, the Commissioner of the Environment and Sustainable Development will comment on the new strategies.

## Integrating environmental considerations into the work of the Office

**160.** Under our own strategy, the Office is working to integrate awareness of the environment and sustainable development into what we do and how we do it. Our sustainable development strategy has three main thrusts. By far the most important is to include environmental and sustainable development considerations in determining the scope of all our audit work. We are also committed to reducing the environmental impact of our day-to-day operations and providing our employees with the tools they need to green both our audit work and our operations. Because we are a small organization, these latter goals will not have the impact of our primary goal, but they remain important to us.

**161.** We are making progress in all three areas. Our second strategy has set out our priorities for the next three years.

## Responding to the concerns of Canadians

**162.** The amendments to the *Auditor General Act* established a petition process, a vehicle for Canadians to register their concerns about specific environmental and sustainable development issues that fall under federal jurisdiction and to obtain a response to those concerns. In this process, a Canadian resident writes a letter to the Auditor General, who forwards it as a petition to the appropriate federal minister for a response. The minister has 120 days to respond to the petitioner.

**163.** By November 2000, 27 petitions had been received and sent to ministers for response. Many of those petitions concerned environmental assessment under the purview

of the Minister of Fisheries and Oceans. In my view, this avenue for citizens to hold the government accountable has been underused. While citizens have always been able to write directly to ministers, the petition process ensures a timely response. Moreover, the Commissioner includes summaries of petitions and responses in each year's report to Parliament, adding transparency to the process. The Commissioner is now considering what steps to take so that citizens can realize the full benefits of this change to our Act.

## An unfinished journey

**164.** *Our Common Future*, the 1987 report of the World Commission on Environment and Development, characterized sustainable development as a journey rather than a destination. If that is correct — and I think it is — the greening of the Government of Canada might best be characterized as an unfinished journey.

**165.** While there has been some progress, significant challenges remain. For example, the government needs to better manage new toxic chemicals, urban smog, and groundwater contamination. And compared with other countries, we are a large per capita consumer of energy and other natural resources and a large generator of pollution and waste.

**166.** In spite of considerable effort by departments to move ahead on the environment and sustainable development, we must recognize that progress has been slow and is still difficult to measure. We need to step up the pace and move rapidly toward sustainable development. In particular, the government must finally decide "who's minding the store." It can then more quickly close the gaps our audits have found between commitment and action. I am convinced that better accountability and better performance go hand in hand. And I am optimistic that the amendments to the *Auditor General Act* will make a difference for us and for our children.

SECTION VII

# Delivery of Services to Canadians

## Five examples of serving Canadians

**167.** A large part of this report deals with the internal management of the federal government — the public service, financial and performance management, and the structure of government itself. Over the last 10 years, our audit office has devoted a lot of effort to understanding the strengths and weaknesses of the plumbing and wiring in our federal government house. But Parliament and Canadians have immediate interests as well. They want to know how well the government is doing at delivering the services they need. The largest share of our audit effort has looked at the delivery of programs and the reporting of their results to Parliament.

**168.** In a report like this I cannot summarize the evolution of service delivery throughout the federal government. However, I can present several examples that I believe reflect the whole and that are in themselves important: Human Resources Development Canada, a department that manages major social programs; Canada Customs and Revenue Agency (formerly Revenue Canada), which collects most of the government's income; Fisheries and Oceans, a large resource and environmental portfolio; Indian and Northern Affairs Canada, a unique

department with critical social and economic responsibilities; and National Defence, the largest security agency in the government.

**169.** The stories of these five departments illustrate some of the key problems the federal government struggled with over the past decade. They show how costly it can be to defer hard choices. Choices that result in winners and losers or in reduced levels of service are understandably difficult to make, but ducking them only increases the difficulty. Three of the departments provide examples: Indian and Northern Affairs Canada, which has not addressed the findings of the 1996 Royal Commission on Aboriginal Peoples; Fisheries and Oceans, which still lacks an overall framework for sustainable fisheries; and National Defence, whose budget is overstretched by the size of the armed forces the government is trying to maintain.

**170.** Three of the departments — Human Resources Development Canada, Fisheries and Oceans, and National Defence — were greatly affected by budget cuts and restructuring; their performance difficulties can be attributed at least in part to their having to rebuild while they continued to deliver services.

**171.** Finally, these departments reflect many of the government-wide problems I have discussed at length elsewhere in this report: weak control structures, difficulty moving to results-based management, and the lack of enough highly trained people to do the work. Together, I think these cases provide readers with an overview of the state of program management in the federal government.

## Human Resources Development Canada

### *A large, complex and fairly new department*

**172.** One minister became responsible in 1993 for all federal income support programs, employment and human resource programs, and the federal involvement in addressing labour markets and working conditions. The government brought together in a new department, Human Resources Development Canada (HRDC), components of several former departments:

- labour market and unemployment insurance programs of the former Department of Employment and Immigration;
- all the programs and services of the former Department of Labour;
- social development, income security and cost-shared programs of the former Department of National Health and Welfare; and

- post-secondary education transfers, student loans and social development programs of the former Department of the Secretary of State.

**173.** The department that emerged is diverse and complex. HRDC provides an integrated policy approach to Canada's investment in people, as well as integrated delivery of programs and services. Each year it serves nearly 9 million Canadians in all regions of the country, and pays out more than $50 billion in various benefits. Its operations are highly decentralized, with 80 percent of its 21,000 employees working in local and regional offices.

### *Change and challenge have been constants*

**174.** Immediately following its creation, HRDC had to establish new organizational structures and ways of delivering services. Since then, it has gone through several changes in management as well as significant changes to its operations and major programs.

**175.** HRDC assumed responsibility in April 1994 for the labour adjustment component of The Atlantic Groundfish Strategy (TAGS). In July 1996 it put a new *Employment Insurance Act* into effect and, at the same time, the three-year Transitional Jobs Fund program to assist the areas of Canada most severely affected by the employment insurance reform.

**HRDC is a large and complex new department that has had to cope with constant changes and major cutbacks.**

**176.** Some of the Department's responsibilities and the employees involved began in 1996 to be transferred to provincial governments under Labour Market Development Agreements. HRDC began in 1997 to address the far-reaching changes to the Canada Pension Plan that would come into force in January 1998. As the decade neared its end, the Department was devoting considerable resources and attention to making its mission-critical systems Year 2000-compliant.

### *Cabinet made large budget cuts*

**177.** Because the government expected to carry out an overall reform of social security, most of HRDC's operations were initially excluded from Program Review. However, the country's deteriorating fiscal situation forced a change in the government's plans, and the Cabinet decided on large cuts to HRDC.

**178.** The February 1995 Budget announced that HRDC would reduce spending by $600 million in 1995–96 and $1.1 billion more in each of the next two years. To achieve those savings, the Department had to reduce its full-time staff by 5,000. Moreover, it had just four months to decide how it would streamline and restructure to meet that target.

**179.** The downsizing after Program Review and the devolution of programs and services to the provinces and outside organizations represented a loss of corporate memory, experience and capacity throughout the Department — especially on the front lines.

*A new service delivery network*

**180.** One key element of HRDC's streamlining was a major redesign of the local structure of service delivery so the Department could deliver its programs and services with fewer resources. Its new service delivery network began in 1995. The Department consolidated services in 100 Human Resource Centres of Canada (HRCCs), which offer the full range of services and have administrative and support functions. Another 220 satellite offices provide core services. About 150 local offices closed when the new network began to operate.

**181.** As part of its network, the Department developed new ways of serving Canadians. These included innovative partnership arrangements with other levels of government and non-governmental organizations, upgraded telephone services, and client self-service through computerized facilities and the Internet. Today, computer terminals at more than 5,000 kiosks in HRCCs and on partners' premises provide access to a number of services.

**182.** Our April 2000 report on HRDC's service quality at the local level concluded that the Department had considerably improved its services. It had made them more accessible to Canadians, set out national service commitments to clients, and upgraded the service skills of employees. However, we noted that HRDC did not have performance measures for all of its national service commitments, and there were gaps in the information it provided to Parliament on its service performance. We found that while Employment Insurance payments were more timely than in 1995, the estimated proportion of incorrect payments had increased significantly over the same period.

**183.** In a separate government-wide audit of service quality, also reported in April 2000, we found that HRDC's telephone services to clients had improved significantly between 1995–96 and 1998–99. Call centres for both the Income Security and Employment Insurance programs were answering a higher proportion of the calls they received and were answering them faster.

### *Moving toward results-based management*

**184.** HRDC began results-based management in 1996, shifting its emphasis from processes to results. In practical terms, this meant less red tape, more flexible rules, empowered front-line staff, and more delegation of authority. The purpose was to increase efficiency, provide better service to clients, and improve accountability for achieving results.

**185.** We reported in October 1997 that the Department had launched several initiatives in results-based management and had made some progress. However, we found that it needed to do more work on measuring and analyzing performance and reporting the results to Parliament. Our follow-up of that audit in 2000 found further progress, but we noted that performance measurement and reporting still needed to improve.

### *Weaknesses in basic controls*

**186.** In the face of rapid changes to its programs, operations, and responsibilities, the Department has devoted considerable effort since its creation to developing and maintaining a coherent organization, including appropriate management structures and information systems. The environment in which it operated during the 1990s favoured a heavier emphasis on efficiency and service than on accountability frameworks and basic controls.

**HRDC placed more emphasis on service than on maintaining basic controls.**

**187.** Our reports on HRDC since 1993 have covered a broad range of its programs and activities:

- Canada Pension Plan: Disability (1996)
- The Atlantic Groundfish Strategy (1997 and 1999)
- Transition toward Results-Based Management (1997)
- Management of the Social Insurance Number (1998)
- Accountability for Shared Social Programs (1999)
- Service Quality at the Local Level (2000)

Our audits and studies (and our follow-up work) have shown that HRDC has made progress in many areas. However, basic controls still have gaps, and accountability

frameworks still show significant weaknesses — including a lack of key information needed to manage programs and services efficiently and effectively and report on their results.

**188.** An example we reported in 1996 was the need for HRDC to have better management practices and information in determining eligibility for Canada Pension Plan: Disability benefits. We noted that the Department was not collecting and analyzing data on performance to be used for management and accountability; a 1999 follow-up showed limited improvement. Another example was the weaknesses we found in 1998 in basic controls on the management of social insurance numbers, weaknesses that included inadequate procedures to guard against fraud and abuse. Our follow-up of that audit in 2000 found that to improve the management of social insurance numbers, the Department had taken such steps as developing an action plan to deter and detect fraud and abuse, increasing the number of investigations, and working to define relevant performance indicators.

*Serious and widespread deficiencies in managing grants and contributions*

**189.** In January 2000, HRDC released the results of an internal audit, which pointed to significant problems in the way it managed grant and contribution programs. Our own audit of its grants and contributions in October 2000 confirmed and extended the findings of the internal audit. We found serious and widespread deficiencies in the process for selecting and approving projects and in their financial management and control. There were also weaknesses in the design of grant and contribution programs and the measuring and reporting of their results. Both audits revealed the extent to which the Department's internal controls and accountabilities for these programs had broken down, placing public funds at risk.

**190.** HRDC responded to its internal audit with a six-point action plan to correct the problems the audit had identified and strengthen the management of grants and contributions. We found that the Department was making good progress with the six-point action plan and complementary initiatives. Further, we concluded that the corrective action it plans and is taking will address the deficiencies our audit identified in the design and management of grant and contribution programs.

**191.** The Department's current management has demonstrated its commitment to the necessary action. However, the deficiencies will not be corrected overnight. Management will need to sustain its efforts and attention to carry through on its initiatives and achieve

the broad-based systemic change required for an appropriate balance of efficiency, service, and sound financial management.

*A challenge to establish appropriate balance between service and control*

**192.** As I have noted, the Department's environment in most of the 1990s favoured an emphasis on service more than on control and accountability. It was not until the end of the decade that HRDC began to focus on its internal controls and risk management practices, as it engaged in the government-wide thrust to modernize comptrollership. That focus continues, its urgency highlighted by the recent concern about grant and contribution programs.

**193.** During the past year the Department showed a commitment to implementing corrective action in the management of grants and contributions, and it developed considerable momentum. Its challenge ahead will be to sustain this momentum and broaden its focus to strengthen basic controls and accountability in all areas of its mandate. And it has to do this without losing sight of the need to deliver high-quality service and achieve the desired results.

## Revenue

*Preserving the tax base is one of government's most important functions*

**194.** When I became Auditor General, I made it a priority to increase our audit coverage of Canada's tax system. A government cannot provide the services its citizens need if it does not have the money. And it needs to raise the money through taxes in a way that is efficient and fair, and acceptable to the vast majority of taxpayers.

**195.** An effective tax system combines efficient and equitable methods of collection with a reliance on ethical conduct by all concerned. States whose citizens are not convinced that tax money pays only for legitimate services and that all taxpayers pay a fair share will increasingly encounter non-compliance with the tax system, and may eventually have difficulty collecting enough money to operate. While Canada is in no imminent danger of slipping that far, even small cracks in the foundation of our tax system should not be tolerated.

*Compliance is the goal*

**196.** In 1999–2000 the federal government collected over $165 billion in federal taxes to fund the services it provides to Canadians, and another $73 billion on behalf of provincial

governments and others. Canada has chosen a self-assessment system for collecting taxes, and significant non-compliance with tax laws would put Canada's tax base at risk. Canadians are expected to report their income truthfully and to pay the taxes they owe, and they have a right to expect that those who do not pay their fair share will be detected and dealt with accordingly.

**197.** The Canada Customs and Revenue Agency (formerly Revenue Canada) places a lot of emphasis on educating taxpayers about their obligations and on processing their returns quickly and accurately. Its ability to do this has improved considerably over the years.

**Assistance to taxpayers and processing of tax returns are generally strong — but enforcement still needs to improve.**

**198.** We have been less impressed with the Agency's enforcement efforts. Our reports in 1994 on GST enforcement, in 1996 on the tax avoidance program and the program to audit the largest corporations, and in 1999 on the Underground Economy Initiative all cited weaknesses in enforcement. The Agency has taken steps to address them, but it still cannot show that its enforcement activities have improved compliance, their main objective.

### *The government must improve the way it resolves tax disputes*

**199.** An effective process for dispute resolution is a critical part of an effective tax system. The law provides for taxpayers to appeal if they believe the tax system has treated them unfairly. We are concerned about the Agency's ability to resolve these disputes quickly and fairly.

**200.** We reported in 1993, for example, that Revenue Canada and the Department of Justice had not properly managed the risks of litigation in the income tax provision for the resource allowance, a deduction allowed to mining and oil and gas companies (in lieu of the deductibility of Crown royalties). The Crown has had to refund over $1 billion in income tax and interest since 1994, because the provision did not clearly convey the government's intent. We audited the interdepartmental administration of the income tax system in 1998 and did find that the management of tax litigation risks had improved.

**201.** The Agency's handling of tax credit claims for scientific research and experimental development was the subject of an audit we reported in 2000. We found that unresolved claims dating back to 1985 amounted to hundreds of millions of dollars. The claims had

**Unclear tax laws can result in costly and lengthy court cases and a loss of revenue.**

not been resolved because it was not clear whether particular projects were eligible for the tax credit. I think it is taking too long to resolve these disputed claims.

### *The Revenue Agency has gaps in its own capability*

**202.** Over the past decade, we noted many times that the Agency's ability to deliver its programs in a fair, consistent and timely way was at risk. Our 1996 examination of its audits of the largest corporations and our 1998 audit of the International Tax Directorate both noted that problems in the staffing of positions have hampered the Agency's ability to function in this complicated field. Our work on financial management in what was then Revenue Canada identified important problems with the reliability of information used to monitor and analyze program statistics, trends and performance. The new Agency has more management flexibility, which it should direct at tackling these problems.

### *Keeping tax laws fair and equitable*

**203.** The *Income Tax Act* is a complex statute. Constant monitoring by the Canada Customs and Revenue Agency and the Department of Finance is needed to ensure that the law's intent is not thwarted by aggressive taxpayers and that it continues to be fair and equitable to all. In our audits of the tax system we look for potential unfairness. We reported in 1992, for example, that the Department of Finance had not brought to a timely completion its review of the rules for taxing foreign-source income and the income of Canadian taxpayers' foreign affiliates. The delay meant that some taxpayers could have benefited unfairly in the meantime. The Department of Finance disagreed with our findings at the time and in subsequent hearings by a parliamentary committee, but I was pleased nonetheless that changes to the rules in 1995 dealt with many of our concerns.

**Our audits of the tax system have identified unfairness that the government has taken steps to eliminate.**

**204.** As another example, we expressed serious concerns in 1996 about the administration of the *Income Tax Act*, specifically about the movement out of Canada of at least $2 billion in assets held in family trusts. Again, although the government disagreed with our conclusions, it reviewed the related policy and proposed significant changes in the way it

would treat taxpayers who become non-residents. But those changes, proposed in 1996, are still only in draft form.

### *Managing and accounting for tax expenditures*

**205.** Tax expenditures (forgone tax revenues) amounting to billions of dollars each year provide relief from paying taxes, through income exclusions and deductions, tax credits, and tax deferrals. They are used to support various social and economic goals, as an alternative to government assistance by direct spending. In our view, tax expenditures need to be managed and accounted for as adequately as direct expenditures because a dollar of revenue forgone is as important as a dollar spent.

**206.** During the 1980s we were concerned that the Department of Finance was not managing tax expenditure programs well enough. We expected to see objectives and desired results of these programs stated clearly, their performance monitored periodically, and their actual results evaluated. We also looked for comprehensive, timely and meaningful disclosure to Parliament of information on tax expenditures.

**207.** Our 1994 audits of income tax incentives for research and development and tax assistance for retirement savings found little progress in the management of tax expenditures. Nor did our 1996 report on child tax benefits and GST credits note much improvement. In 2000 we found that the management of income tax incentives for research and development had improved somewhat since 1994. And the annual report to Parliament on tax expenditures now contains more information about these programs, including their objectives. Evaluations, too, are being published. We encourage the Department of Finance to continue this trend.

### *The challenges continue*

**208.** The Canada Customs and Revenue Agency faced many challenges in the 1990s. It has shown that it can be flexible and innovative and can respond quickly when the government wants to make important program changes. That ability will be needed in the decade ahead, as the Agency's business continues to change rapidly and pressures on the tax base increase.

**209.** One of the biggest threats to the tax base lies in the international activities of Canadian taxpayers, particularly the use of tax havens. This is not unique to Canada; many nations are working individually and together to find solutions. The Canada Customs and Revenue Agency has set up a separate directorate to focus on this threat. This is a good start, but much remains to be done.

**210.** The underground economy poses another big threat: we estimated in 1999 that the associated loss of federal and provincial tax revenues amounted to $12 billion a year. Participation in the underground economy is not a victimless crime. It puts honest businesses at a competitive disadvantage and, in some cases, out of business. It also burdens honest taxpayers with the tax load of those who cheat. Left unchecked, the underground economy could damage Canadians' faith in the fairness of the tax system. While work to combat the underground economy continues, the problem will require the sustained effort of the Canada Customs and Revenue Agency, members of Parliament and all Canadians.

**Offshore activity by taxpayers and the underground economy pose major risks to the future fairness of Canada's tax system.**

**211.** The success of our tax system depends on the confidence and co-operation of taxpayers. Their confidence is based on the belief that the system is fair, that the use of their taxes achieves value, and that their leaders are honest. Parliament has a key role to play in upholding that belief and thereby helping to preserve a vital national asset, our tax base. Parliament needs to ensure that tax legislation is equitable and tax policy consistent with both the country's financial state and the government's objectives. To play its oversight role, Parliament needs to know how well tax collection and enforcement programs are working. It also needs to know the impact of tax expenditures — how much revenue has been forgone and who has benefited. Over the past ten years Parliament and the government have responded positively to many of our audit findings and have worked to strengthen the tax system and increase its fairness to taxpayers. Nevertheless, serious challenges remain. The Agency that has recently been created has the power to do things better and faster. I think our members of Parliament should expect it to do just that.

## Fisheries and Oceans

**212.** Fisheries and Oceans is a highly decentralized department, with 90 percent of its staff deployed in six regions across Canada. Its net expenditures rose during the 1990s from $700 million to $1.3 billion, largely due to the merger with the Canadian Coast Guard in 1995 and increases in grants and contributions to respond to crises in the fisheries. Our audit work over the last decade focussed on the Department's management of the fisheries. Many of the problems we found are long-standing: we first brought them to Parliament's attention in the 1970s and 1980s.

*Fisheries management faced huge challenges during the 1990s*

**213.** The Department's scientific, resource management, policy-making and enforcement functions have had great difficulty managing fisheries and then responding to the collapse of major fisheries on both coasts. Management challenges continued as new fisheries such as wild shellfish and farmed salmon emerged. The major issue the Department faced during the 1990s was balancing rights to access and shares in the fisheries harvests among competing groups — commercial fishers, Aboriginals, fish farmers and recreational fishers — as the nature of the resource changed.

**214.** In 1992 the Minister declared a moratorium on fishing northern cod stocks off the east coast. This was followed in 1994 by the collapse of most other Atlantic groundfish stocks and in 1995 by a dramatic drop in the commercial Pacific salmon fishery. These events had major economic and social consequences for fishers, plant workers, and their communities. Even earlier, the Department had been having difficulty managing the fisheries. It had limited scientific information, problems balancing the rights of various groups to catch fish, and difficulty monitoring compliance with regulations and enforcing them. The problems increased with the emergence of new fisheries, new participants such as First Nations, more efficient and expensive vessels and gear that increased harvesting capacity, and changes in fish-processing requirements. At the same time, managing fish stocks became more complex as the courts recognized Aboriginal fishing rights in the Marshall and Sparrow decisions.

**The collapse of fish stocks and competition among fishers for access to new resources posed a huge challenge.**

**215.** Gathering information on fisheries resources is a challenge even under stable conditions. The rapidly changing nature of Canada's fisheries resources in the 1990s increased the challenge. By the late 1990s the value of many fisheries had returned to near-record levels. While shellfish in Atlantic Canada were abundant, however, they entailed far less processing than groundfish; as a result, many communities that once depended on groundfish processing continued to have persistent social and economic problems.

**216.** As the 1990s came to a close, the Department continued to face major challenges in all three dimensions of sustainability — biological, economic and social. The government's

new policies on sustainable development and biodiversity required the Department to recognize the environmental, social and economic outcomes of its fisheries management.

**217.** Too many fishing boats and too many fishers were a continuing problem throughout the 1990s. While the Department was putting programs in place to match the fishing fleet to fish stocks, funding for its operations was cut significantly and, like most departments, it had to reduce the size of its staff.

**218.** The Department faced all of these challenges — significant management problems, crises in major fisheries, new rights to access, confrontations over sharing the resource, new government policies on sustainability and biodiversity, and new programs designed to reduce overcapacity and the number of people dependent on the fishery — with no overall policy framework for sustainable fisheries to guide decision making. We observed many ad hoc and contradictory decisions and a lack of transparency in decision making.

**219.** The result was a loss of stakeholders' confidence in the Department's ability to manage the resources, in some cases leading to protests and riots among displaced fishers and fish plant workers in Atlantic Canada.

*The Department was working in crisis mode*

**220.** In the absence of a strategic framework for managing sustainable fisheries, a framework that would establish clear objectives and guiding principles and bring together biological, economic and social factors, the Department reacted to events with a crisis management approach in all of the fisheries that we audited.

**Fisheries and Oceans worked in crisis mode during most of the 1990s.**

**221.** The Department did not make the necessary improvements to ensure the sustainability of new fisheries, including the lucrative Atlantic shellfish fisheries and the growing salmon farming industry in British Columbia. Its planning was poor and it was slow to develop sustainable fisheries policies and the frameworks to integrate them. It had limited knowledge of stocks and habitat to determine conservation requirements and catch limits, and it failed to take precautions when its own scientific advice was warning of stock declines. This led the Department to partially or completely close some fisheries without adequately consulting stakeholders. Confidence in its ability to manage the resource slipped further as a result. The situation was made worse by the Department's weak

enforcement of the *Fisheries Act* and regulations and its failure to develop an effective, comprehensive process of consultation with stakeholders.

222. The programs the Department set up to handle the problem of too many boats and people fishing have not made satisfactory progress. The government has found it difficult to define — let alone control — the capacity of the commercial fleet. In many cases, the number of people dependent on fishing has been reduced but not the fleet's capacity to catch fish. In fact, the Department permitted the fishing fleet in the Newfoundland region to grow significantly by allowing new shrimp trawlers in the fishery and permitting others to be enlarged or replaced. In the Pacific salmon fisheries, it had no conservation-based catch limits to govern the size of the fleet. Too many boats is a symptom of the Department's failure to develop a strategic and sustainable approach to managing the fisheries.

*The Department needs to work with stakeholders to complete a new framework*

223. The Department finally began to show leadership toward the end of the decade, in developing a strategic plan that set a clear direction and priorities and introducing a policy for sustainable Pacific salmon fisheries. It also began a review of its Atlantic fisheries policies.

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**The Department had begun to show leadership by the end of the decade.**

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224. Its recent planning and policy initiatives show that the Department has given considerable thought to the problems it faces and is moving from crisis management to the orderly management of sustainable fisheries. With the direct involvement of stakeholders, the Department must finish developing new policies and practices for sustainable fisheries management. More important, it must remain committed to implementing those policies and practices in a fair and consistent way. Parliament could assist by reviewing progress regularly and recommending to ministers how it could be broadened and accelerated.

## Indian and Northern Affairs Canada

*Aboriginal issues are complex and date from the 18th century*

225. Although the Government of Canada operates in many challenging spheres, it is difficult to name an area more challenging than the resolution of Aboriginal issues. The

reasons for the challenge are many and complex. Indian issues of today can generally be traced to events that predate Confederation. The Royal Proclamation of 1763 — more than 100 years before the birth of a united Canada — encompasses doctrines that still affect the lives of Indians through the *Indian Act*. That Act also establishes certain responsibilities of the Department.

**226.** Over time, many issues surrounding Aboriginal rights have evolved into the modern-day assertions and expectations of Aboriginal society. Unfortunately, with increasing frequency these expectations are being addressed through costly litigation or threats of litigation instead of negotiated settlements that offer more predictable results. Unresolved issues include rights to land, claimed inherent rights, rights stemming from treaties between First Nations and government, and rights such as access to resources. Given that the *Constitution Act, 1982* recognizes and affirms Aboriginal and treaty rights in Canada, all Canadians should be concerned and disappointed that so much has remained unresolved, often taking the approach of last resort — going to the courts.

### *Effective reform is elusive*

**227.** Our audits of Indian and Northern Affairs Canada have identified a wide variety of problems, including poor accountability and unacceptable results in Aboriginal programs. Improvement depends to a large degree on effective working relationships between the government and over 600 First Nations. Significant differences among First Nations in culture, size, location, aspirations, leadership, and access to resources mean their relationships with the federal government can be expected to vary, and they do.

**228.** A concurrent challenge that began at least two decades ago is the devolution of programs to all First Nations. Devolution is the major reform of the centuries-old approach of the Department's Indian Superintendent, but it should not mean abdication. The Department is still responsible to ensure that the programs it funds produce the necessary results at an appropriate cost. Effective devolution, then, must take into account the different needs, strengths, weaknesses and risks associated with each First Nation.

**229.** Our audits have made several observations about the relationships between First Nations and the Department, and about program devolution. They include the following:

- In 1991, 92 percent of about 600 claims made in the preceding 20 years had not been settled.
- In 1998, it was not uncommon that settling comprehensive land claims took more than 20 years.

- As of 1996, it would take Indian students on reserves 23 years to reach education parity with the overall Canadian rate of high school completion.
- Several funding arrangements between the Department and First Nations that accounted for about $3 billion a year had deficiencies. The funding arrangements were not matched adequately to First Nations' capacity for managing their programs; nor did the arrangements provide for the Department to properly account for them to Parliament.
- Many Indian reserves have substandard living conditions that would not be tolerated if experienced by residents of Canadian municipalities: inadequate housing, inadequate water supply, crumbling infrastructure, economic underdevelopment — and the list goes on.

**230.** In addition, the 1996 Royal Commission on Aboriginal Peoples reported problems that had long been unresolved, and it made many recommendations. Since the problems have been brewing for over two centuries, overnight solutions cannot be expected. However, I believe that the longer it takes to address them squarely, the more difficult it will be to resolve them.

### *Working out solutions*

**231.** Based on my observations over the past 10 years, it is clear that these issues are entangled in complexity and will be difficult to resolve. Our audits suggest that at least the following conditions would be required:

- effective political and managerial leadership in Aboriginal communities and in government, committed to finding solutions;
- will and capacity in First Nations to accept the devolution of program management from the federal government and to carry it out effectively;
- will and capacity in the federal government to support First Nations in developing their own abilities;
- development and application by all parties of sound principles of governance and accountability;
- expeditious settlement of legitimate claims against the government;
- establishment and maintenance of harmonious relationships between all First Nations and government; and
- full and proper adherence to Indian treaties and contractual commitments by all parties.

*Careful navigation is required*

**232.** The mandate of Indian and Northern Affairs Canada poses a highly complex and sensitive challenge to those who must discharge the government's responsibilities. I believe that strong political commitment by the government and equally strong commitment by First Nations are absolutely essential to achieving progress. But political commitment cannot grow unless mainstream Canadians get beyond a knee-jerk reaction to the demands of Aboriginal communities and start to understand the treaty rights on which those demands are based, as well as recognizing their moral basis in social justice. It is easy to blame politicians for lukewarm support — but they reflect our own values.

**It is easy to blame politicians for lukewarm support — but they reflect our own values.**

**233.** Finding the solutions is akin to turning an ocean liner in a narrow channel: even with great navigation skills, progress is slow. The will of leaders to meet the challenge must be demonstrated rigorously and unfailingly to the parties involved and to Canadians in general. In particular, management in the Department and management in Aboriginal communities will need the strong and consistent support of the political leadership as they work toward resolution.

*Developing management expertise in the First Nations*

**234.** The devolution to First Nations of government-funded programs is almost complete. Programs such as on-reserve social assistance, infrastructure development, education, and other initiatives are now delivered and managed directly by First Nations. By 1996, the Department was transferring about 75 percent of program funds appropriated by Parliament to First Nations' control for the benefit of their communities. However, the devolution of complex programs to communities that have been wholly dependent on the federal government for decades carries a high risk of failure. Some First Nations are so small that expecting them to develop alone the capacity to deliver programs may be unrealistic. First Nations not yet ready to carry full responsibility for program delivery may need extra assistance to help build the needed capacity.

**235.** The question arises, then, who is responsible to ensure that First Nations have the capacity and the will to successfully administer devolved programs? The answer is inescapable: that responsibility is shared by the federal government and First Nations.

**236.** Our audits have found that Indian and Northern Affairs Canada has not devoted enough effort to helping First Nations prepare for managing programs formerly delivered

by government. Indeed, basic conditions such as appropriate funding arrangements between the Department and First Nations have yet to be fully met. At the same time, it is reasonable to expect that Indian leaders who believe that programs can be more effective under their control would also ensure that their communities are well prepared to accept devolution.

### *Ensuring federal accountability for results*

**237.** Government and First Nations both need to demonstrate that they are accountable to their respective constituents. But we have found that perspectives on accountability can differ.

**238.** Indian and Northern Affairs Canada, like other federal institutions, is accountable to Parliament and to the people it serves. Regardless of program devolution, the Department remains accountable for the way federal funds are used and for ensuring that the results are acceptable. I am pleased to note that in recent years both the Department and First Nations have paid more attention to the need for accountability. I believe that continued effort will eventually bring accountability to a standard that Canadians can be proud of.

### *Settlement of claims*

**239.** First Nations' land claims and other claims against the Government of Canada have troubled both parties for decades. The numerous complexities of claim settlement carry wide-ranging effects that extend beyond the participants. For about 25 years, major unresolved claims have been decided through litigation as an approach of last resort.

**240.** Our audits of specific claims in 1991 and comprehensive land claims in 1998 noted that reaching settlements is time-consuming, costly and difficult. The issues are rooted in a time when exploration and development of the New World were prerogatives of the colonial powers. Today, there are claims to huge areas of Canada. The moral and legal issues suggest that it is in everyone's interest to resolve these claims as expeditiously as possible, in order to remove the associated uncertainties and thereby stimulate investment and progress in the affected areas.

**241.** Achieving tangible results will require the co-operation and strong will of not only First Nations and the federal government but also provincial governments and the private sector. In my view, efforts should be intensified to bring the parties together.

### *The problem may worsen*

**242.** Demographic trends suggest that today's issues will be exacerbated in the future if they remain unresolved. It is therefore especially important that they be addressed

effectively and fairly. To do so, Indian and Northern Affairs Canada will need to be more proactive. The Department and many other organizations have studied Aboriginal issues extensively. The need for remedial action is urgent.

## National Defence

*Major challenges throughout the 1990s*

**243.** The last 10 years were both turbulent and difficult for the Department of National Defence and the Canadian Forces. The end of the Cold War meant that the operational patterns established over 50 years were broken. The Forces found themselves with equipment, doctrine and ways of doing business that were more or less unsuited to the new demands they faced. But legacy systems could not be immediately replaced, nor could the Defence organization itself be quickly changed. The events of the decade, especially the failure of Canada's military system in Somalia, indicated that there were significant internal problems to address.

**244.** The Somalia incident and the subsequent inquiry put severe stress — albeit self-inflicted — on the Canadian Forces. The military lost a lot of credibility at home and abroad, and the energy of senior leadership was diverted to resolve a problem that should have been avoided.

**245.** For management the most significant aspect of the decade was the radical cuts in the money spent on defence. To balance the Budget, and recognizing that the direct threat of war had declined, the government cut National Defence funding by about 25 percent over three years beginning in 1994. These cuts meant the Canadian Forces had to reduce troop strength from about 76,000 to 60,000. The Department also cut 12,000 civilians from the payroll, ending up with about 20,000 employees. Such huge reductions meant that the Department had to find new ways of doing business, replacing management systems and contracting out some support work.

**246.** The 1990s were also a period of significant military activity that was different in nature from that of the previous 40 years. Canada had long had many troops stationed in Europe, prepared to go to war on short notice, but it was relatively pleasant duty. No shots were fired, their dependants accompanied the troops, and for much of the period a strong Canadian dollar meant good living conditions. The 1990s were different. Canadian troops served in the Gulf, Somalia, Rwanda, Bosnia, Kosovo and Haiti, where they lived under field conditions, travelled on mined roads, were shot at and suffered casualties. Overseas duty was no longer a reward but a major stress on family life.

**247.** Our audits covered most of the major functions carried out by the Department. National Defence in 1990 was a bureaucratic, rule-following, risk-averse organization and by 1994 its budget could not sustain it. By 2000 it was closer to living within its financial resources and had improved its management to some extent, but many problems have persisted into the new decade.

### *Maintaining ready forces was a continuing problem*

**248.** We reported in 1996 on the ability of the Canadian Forces to conduct peacekeeping operations, and we followed up that work in 1998. In other audits, we examined individual support systems: supply, medical support, training, the Canadian Forces Reserves and the management of readiness. At the start of the 1990s, we found that support systems would not be able to keep the Canadian Forces going in a sustained conflict — their objective at that time. Later, we found gaps in the planning of peacekeeping missions, and pre-deployment training that was inadequate. The Reserves cost roughly $1 billion a year to maintain, but the largest component, the Militia, produced few effective troops because of poor retention rates, inadequate equipment, and low availability of Reserve members for training.

**249.** Over time, we noted some progress. Mission planning and pre-deployment training improved, as did the Forces' ability to assess their own operations and identify lessons learned. Support to deployed operations also improved. The Reserves, however, languished throughout the decade. Although many studies were carried out by the Department and by ministers, at the end of the decade little had been accomplished to ensure that value is received for money spent on the Militia. A new initiative has been launched but has not yet achieved results. Given the proportion of Army troops in the Reserves and the spending it represents, this problem must be solved.

**250.** The Department has also been unable to adequately measure readiness; that is, how close troops come to standards set for training, equipment, and ability to operate in the field. Over the decade, there were failed attempts to build Forces-wide measurement systems that would allow the Department and Parliament to know whether the Canadian Forces were ready to conduct operations. This is simply not good enough for a $10 billion-a-year operation on which our security depends. National Defence is working on a performance measurement system that would include reporting on Forces-wide readiness, but it is still in development.

### *Limited improvement in the efficiency of support services*

**251.** At the beginning of the decade, National Defence lagged far behind the outside world in the efficiency of its support services. Audits regularly found that its services were from

30 to 300 percent more expensive than similar support in other organizations. Our 1990 audit of medical support, for example, found that military hospitals cost from 65 to 150 percent more to operate than similar civilian hospitals. Military technical training cost three times more to deliver than comparable training by community colleges, and the productivity of base construction engineering trades was 33 percent lower than in the private sector.

**252.** The Department mounted an impressive number of large projects throughout the 1990s, including streamlining of headquarters, re-engineering of materiel and personnel support services, and contracting-out of many services such as flight training support, management of the Militia training centres, and even logistic support to deployed troops. But these efforts have produced only limited results. A 1996 audit of selected support services found that productivity was declining in the huge materiel and training functions because downsizing had reduced the demand for the services faster than the supply. A follow-up in 2000 found that the decline was continuing in the $2 billion-a-year training sector. The Alternative Service Delivery program, intended to lower costs by contracting for services, was saving only about $60 million a year by 2000 rather than the $200 million saving targeted for 1999 and the $350 million targeted for 2001. The Alternative Service Delivery program has also raised questions about the loss of military flexibility as Forces personnel are replaced by civilian contractors.

**253.** Its efforts to improve efficiency failed because the Department lacked an overall plan, because it placed other objectives first, and because it had to cope with continuing personnel and budget reductions. At management levels below national headquarters, many managers still lack the training, tools and information needed to manage cost and performance.

### *Overstretching the defence budget*

**254.** Affordability has been a major problem since the middle of the 1990s. In spite of remedial measures, the effects of trying to maintain a force too large for its budget will last for several more years. The Department conducted a White Paper review in 1994 and concluded that it needed a "multi-purpose, combat-capable" force. This force was never really defined; as a result, every service and branch attempted to perpetuate itself in ever-smaller form as budget reductions took effect. In addition, much equipment acquired during the 1970s and 1980s was facing block obsolescence. In 1998 we found that the Department would have to almost double its capital funds to be able to support the force it was planning. The failure of efforts to improve efficiency meant that not enough funds

were being freed up inside the Department. Moreover, the Department lacked good planning tools for assessing requirements and setting priorities.

**255.** By 2000 it appeared that the Department was making headway in matching its ends to its means. It has greatly improved its internal planning so that real choices can be made across branch and service lines. It has also used its improved analysis to convince central agencies and ministers that an increase in funding is justified. Although officials estimate that they are still about $750 million short each year, they are proposing solutions to ministers to address the shortage. Better information and discipline may gradually eliminate the overstretch of the 1990s that left the Forces with old equipment that was unreliable and expensive to maintain, and new equipment that was too lightweight to do the job.

### *Parliament has not been kept informed*

**256.** Throughout the decade, we drew attention to the fact that Parliament had received little or no information on the state of the armed forces. In 1998 the Public Accounts Committee asked that the Department's annual report include a comprehensive review and assessment of defence, and indicators showing how well capital acquisitions were meeting defence goals. The government told the Committee that an annual review would be impractical and that information was already provided in other public documents. The annual Performance Report to Parliament has been a disappointing collection of "good news" anecdotes rather than a source of genuine information on performance. As already noted, the Department has failed to develop an internal performance management system on which reporting to Parliament could be based. And while the Department continues to contemplate significant reductions and restructuring of the Forces, Parliament has been told little more than that "Canadian Forces are now more combat-capable than they were ten years ago."

**257.** The government is falling short of telling Parliament what it needs to perform its oversight role. We found continuing problems in readiness, internal efficiency, and program affordability during the 1990s. These problems cannot be solved without changes that have political effects. It is therefore essential that Parliament be provided with the information it needs to carry out its role in setting things right.

SECTION VIII

# The Evolving Role of Legislative Audit and the Office of the Auditor General

## What is legislative audit?

**258.** Auditing developed from financial accounting in the private sector, where effective communication is needed among management, shareholders and lenders. Management communicates much of its accountability information through financial statements that are prepared according to accepted principles. The auditor's job is to add credibility to management's accountability report by testing its assertions against known standards and providing assurance that information is presented fairly in the report.

**259.** An independent Auditor General has played this role in Canadian government enterprises since 1878. But legislative audit now goes beyond traditional financial auditing. Legislative auditors are challenged to provide the legislature with information on management performance across the board. They not only comment on the adequacy of management reports but also provide much additional information. There are no generally accepted standards for reporting non-financial performance, and the audit of any particular entity may require the development of specific standards for that purpose. In spite of these challenges, legislative

auditors have in most cases been able to provide independent assessments of program management that users have found to be objective.

**260.** Legislative audit still includes traditional financial audit, and an important role of every legislative auditor is to assure the legislature that the government's financial statements correctly represent its financial position and results. Legislative auditors may also report whether management has complied with laws and regulations. Finally, in many jurisdictions they provide a professional opinion on whether government operations are managed with due regard to economy, efficiency and environmental effects and have adequate systems to monitor effectiveness. Viewed another way, legislative audit has progressed in 30 or 40 years from examining whether individual transactions followed the rules to today's audits, reporting on the management of entire government programs that spend billions of dollars.

**261.** Most types of audit my Office does did not exist 25 years ago — and some, like environmental audit, have emerged only in the past few years. Legislative audit in Canada continues to evolve with Parliament's needs in its oversight of government expenditures, changing as Parliament's priorities and the government's organization change.

## Value-for-money audit

### The credibility of value-for-money audit has been established

**262.** Canada has been a world pioneer in developing value-for-money auditing. Its origins in Canada were in the publication of "non-productive payments" in the Auditor General's reports during the late 1950s. These were expenditures that were legal but resulted in little value to Canadians. Maxwell Henderson, the Auditor General in the early 1970s, expanded that work to the extent that it became the best-known section of the Auditor General's Annual Report. The next Auditor General, James J. Macdonell, asked for a review of his investigating and reporting responsibilities. That led to the eventual amendment of the *Auditor General Act* in 1977, which broadened the mandate to include reporting to Parliament any instances where government spending had not given due regard to economy and efficiency and where systems to measure and report on program effectiveness had not been implemented.

**263.** J.J. Macdonell also brought in many individuals, like me, from the private sector and began to modernize the Office. Early audits by the Office had created the credibility necessary for Parliament to take the leap of giving the Auditor General extensive new powers, defined only generally.

**264.** There was some concern in 1977 that the changes in the mandate would draw the Auditor General into policy matters and even into politics and might lead to the Office's questioning of political judgment. For that reason, the Act distinguished between audits of economy and efficiency, which are given as examples of work the Auditor General can do, and the audit of effectiveness; the Act mentions auditing only the government's measuring of its own effectiveness. Most people now see the value of the 1977 Act, but as in other countries with legislative audit there will always be some concern about the Auditor General's crossing the hard-to-define line between management and policy.

**Twenty-three years of experience in value-for-money auditing should lay to rest concerns that the Auditor General will cross the line into policy.**

**265.** I think, however, that 23 years of value-for-money auditing can lay these fears to rest. The *Auditor General Act* leaves it to the Auditor General to determine just where the line is. To me, this line is not a fixed one. At the far limits on one side are administrative policies such as accounting policies. These kinds of policies do not raise political issues and there is no question of exempting them from audit. At the far limits on the other side are the national policy goals of the government that may not be incorporated in legislation and that are subject to political debate. Since we never — and would never — attempt to audit such areas, they are not problematic. In the areas between are the policies that support programs by specifying how they should be managed, as well as policies that establish program goals and major program decisions. This middle, "grey" zone is where the line between management and policy is difficult to navigate.

**266.** In practice, I think we have done very well at staying within our mandate. Our choices have generated few complaints that we have crossed the line. I should add that had we drawn no complaints at all I would conclude that we probably had not fully exercised our mandate.

**267.** Parliament's auditor needs to inform the House that the government is following its own regulations and policies when it spends money or takes action. Moreover, where the government does not itself provide the information, the auditor may need to inform Parliament how well government programs have worked. If problems are created by an absence of policy, I believe it is appropriate for the auditor to call that to Parliament's attention as well. When our audits identify problems, the course of action is for Parliament and the government to decide.

**268.** Audits of program management may also raise issues tied to the policies on which a program is based. The government implemented the Transitional Jobs Fund program in 1996, for example, to coincide with reforms associated with the new *Employment Insurance Act*. The aim of the jobs fund was to create sustainable jobs in areas of the country that had relied more heavily on employment insurance and would therefore be more severely affected by the reforms. Accordingly, the government generally targeted the program to areas where unemployment was 12 percent or higher. Responsibility for defining specific areas that were eligible was left to departmental officials. When we audited this program, we reported that its equitable targeting had been compromised by the difficulties officials had estimating local unemployment rates with reasonable accuracy, which opened to question the practicality of the policy.

**269.** It is important that the audit office preserve its independence and avoid any appearance of political partisanship. Decisions to conduct audits that go beyond the management of programs and, where appropriate, the achievement of program goals must therefore be considered very carefully.

**270.** Over the last 20 years the Office of the Auditor General has established a track record of respecting the line between management and policy, a record that members of Parliament are generally comfortable with. Navigating in the grey zone means constantly observing the boundaries, and we have had few complaints. Parliamentarians now regard our reports as a key support in their oversight role. Even with improved performance reporting by the government, I believe members will continue to want the Office to conduct value-for-money audits to meet their original intent of holding ministers and public servants accountable for the operations of government.

**Members of Parliament expect the Office to produce value-for-money audit reports that allow them to hold ministers and public servants accountable for government operations.**

## Performance audit helps get to the heart of the matter

**271.** Value-for-money audit (performance audit) assesses whether programs are run economically and efficiently and whether the government has the means to measure their effectiveness. The auditor asks if taxpayers got value for their tax dollars. Performance audit tries to develop a full view of a government program to show how well it is managed, rather than examining its pieces one at a time. Audit works best when it does this and gets

to the root of a problem. I have observed that the key challenge to auditors is linking symptoms they have identified to the actual source of a problem. We have been most successful in convincing people that change is required when we have been able to identify causes. The following examples illustrate:

- Our audit of refugee claims revealed that the federal government was having serious difficulties processing refugee claims quickly and efficiently. The audit created great public and parliamentary interest in the matter, and was an important factor in the drafting of Bill C-31, intended to make refugee determination and immigrant selection more rigorous and effective.

- Our audit of rehabilitation programs at Correctional Service Canada showed that their success had been limited by weaknesses in management such as spending a disproportionate amount of resources on two areas, not providing offenders with the job skills they needed and focussing too many resources in the institutions, leaving very little to help offenders find a job once they returned to the community. Our audit led to the Correctional Service's establishing a special task force, strengthening reintegration programs and measuring and improving results.

- Our audit of Altlantic shellfish fisheries reported management problems that were similar to those we had identified in the Atlantic groundfish fishery, which had suffered a collapse. The full impact of the problems in the shellfish fisheries was not obvious because of the high value of catches in these fisheries. However, the audit led the government to commit itself to a two-phase, multi-year review of the Department's management of, and policy directions and goals for, Canada's East Coast fish stocks. The review is a significant step forward in addressing our concerns about the absence of a sound policy based on sustainability.

- The audit of the management of the Social Insurance Number found that the SIN had become a de facto national identification code, contrary to the government's intentions. In addition, the many problems with the integrity of information created risks for all users, including the government and the public. Two parliamentary committees issued extensive reports with recommendations for improving SIN management. Human Resources Development Canada moved quickly to remedy key deficiencies.

- Our 1998 audit of National Defence showed that the capital equipment budget was too small to support the size of the field force being planned. This had resulted in some purchases of equipment that was unsuitable for the assigned military task or that lacked necessary components. The audit resulted in a reconsideration of the overall budget and shape of the Canadian Forces.

- Our 1993 audit of the Canadian International Development Agency's Geographic Programs identified several factors that interfered with the goal of self-reliant

development. These included conflicting objectives for aid, lack of concentration of aid efforts, a focus on the process rather than the substance of development, and a lack of transparency in reporting what CIDA was trying to achieve and how well it was doing. Subsequent audits in 1998 and 2000 have shown that it is making progress, even though problems persist.

272. The challenge to auditors is to move past simply reporting poor program performance to point out what is actually causing the problem. Auditors can thereby move management one step closer to finding a solution and thus make a real difference in how well the government is run. I think that reporting a problem is not doing enough, although it is a necessary part of the job. If the causes of the problem remain unclear, it is difficult for management to decide what action to take; it may even avoid taking action that could be painful. Our Office has therefore been trying hard to get at the underlying causes of the problems we identify, and we believe that we have helped bring about corrective action.

**Auditors need to go beyond reporting poor results and say what the real cause of the problem is.**

## New demands create pressure on the Office

273. I have the clear impression that Parliament truly appreciates our value-for-money or performance audit work. Perhaps one of the biggest challenges to maintaining that work at the same level is the increase in demands on the Office for new services. One of the potential new demands will be auditing the departmental performance reports to Parliament that will provide information on program results, along with the new departmental financial statements that are planned. However, while this may use up resources, programs with credible performance reporting will represent areas of greater disclosure and less need by Parliament for our performance audits. We will be able to focus our audit efforts on the areas that remain less transparent.

274. We are also facing the need to respond to a growing number of direct requests from Parliament for specific audits. For example, the Public Accounts Committee has asked us to provide continuing follow-up on management reform efforts National Defence; the Environment Committee has asked that we look at the effectiveness of federal-provincial environmental agreements. Committees also frequently ask us to appear as witnesses at their hearings. The challenge is to balance specific needs against the requirement to provide Parliament with a view of the whole. I would be very unhappy if we had received

no requests for specific audit work or invitations to testify, but we appear to have reached the limit of our capacity to respond.

275. Throughout the lengthy period of government restraint, the productivity of the Office has remained high. The number of audit reports has increased, and new responsibilities such as the Commissioner of the Environment and Sustainable Development have been taken on. These demands have really stretched the accumulated human and physical capital of the organization. The Office now needs to reinvest in new audit methods, technology, training and time to improve the audit staff's knowledge of government and the outside world. Like government departments, it also needs to review its human resource management plans to ensure that it can staff key positions when "baby boom" employees retire in the next few years.

## Other audit activities and reports contribute to a more open and accountable government

### Greater openness is expected of Crown corporations

276. Special examinations are audits of Crown corporations carried out every five years, designed to bring to the corporation board's attention any significant deficiencies in management systems and procedures. Like performance audits, special examinations have evolved from only a concept to a well-defined professional activity.

277. Our special examinations have had a notable impact on a number of Crown corporations. For example, one large Crown corporation changed its role and strategy considerably between 1992–93 and 1997–98 in response to special examination reports. But the reports are to the boards of the corporations and are otherwise confidential, so the public is often unaware of their importance. For this reason, the Office reports periodically to Parliament on the effectiveness of the reporting system as a whole to compensate for the lack of public visibility.

278. Openness remains a challenge. We can properly expect public institutions to be more open than private corporations. Our Office has encouraged good accountability reporting by giving an annual award for the best Crown corporation reports, based on their financial and operational reporting against clear, meaningful objectives, their presentation of the risks they face, and their plans for the future. We have also developed a framework for assessing reporting by Crown corporations. While there are legitimate concerns about

business confidentiality, Canadians need greater access to information on how Crown corporations are managed. The practice by some corporations of releasing our reports on special examinations sets a good example and shows that greater transparency is possible.

## Environmental audit is taking root

**279.** Environmental audit was incorporated in the Office mandate during my 10 years as Auditor General. I have already commented on its major accomplishments elsewhere in this report. It is worth noting here that the evolution of environmental audit has brought some surprises. For example, the requirement that departments develop sustainable development strategies was only a small aspect of the changes to the *Auditor General Act* that brought the Commissioner of the Environment and Sustainable Development into being. However, it has proved to be very important in leading large departments like National Defence to make major changes and include the environment systematically in their operations and plans.

**280.** Crown corporations were not included in the Office's original mandate for environmental audit, but some members of Parliament have encouraged us to be more active in this area. And the government asked me in June 2000 to conduct a special audit of the Export Development Corporation's environmental practices. I agreed, and our findings will be presented later this year to the Corporation's Board of Directors, the Minister of International Trade, and the House of Commons.

**281.** I believe that our strategy of producing special environmental reports as well as including environmental matters in our value-for-money audit reports is working to promote environmental thinking in all government operations.

## Agency performance reports show potential

**282.** Another new development is the creation of non-departmental agencies with a requirement included in their enabling legislation that they provide an audited performance report to Parliament. Performance reports generally provide Parliament with information on what an agency has accomplished toward its key objectives. As I have already noted, an important function of legislative audit is providing assurance that the information in performance reports is reliable. The new agencies that are required to produce audited performance reports are the Canada Customs and Revenue Agency, the Canadian Food Inspection Agency and the Canada Parks Agency.

**283.** This is a very positive development. However, government departments and the new agencies are having varying degrees of success in producing performance reports that fully

meet expectations for good reporting. Success will remain a challenge. We have begun working with these reports as they exist now, but as they mature there may be an increasing requirement for Parliament to receive some form of assurance on performance information. We would encourage the government to use existing legislation to extend the requirement for audited performance information to Crown corporations.

**Special examinations, agency performance reports, and the annual financial report by the Minister of Finance could all be used better to open up the operations of government to Canadians.**

## The annual financial report by the Minister of Finance should be expanded

**284.** In response to our suggestions, the Minister of Finance began in 1994 to publish an annual financial report. The report provides an overview of revenues the government has collected and what it has spent. The government also publishes an annual fiscal report as part of the Budget process. This is an essential tool for Parliament to evaluate how government activity will affect the Canadian economy overall and how the public debt and deficit are being managed. I am very pleased with what has been achieved so far, but still more can be done. The report should be made more user-friendly and designed for a wider audience. Unfortunately, the Department of Finance does not appear enthusiastic about developing this report any further.

## Financial audit has remained a cornerstone

**285.** The most stable area of our work during the last 10 years has been financial audit. We have modernized our techniques and reduced our internal costs, but the fundamentals have not changed. It will always be a basic job of legislative audit to assure Parliament that information on the government's finances is sound. Without reliable financial information, it is not possible to debate public policy, hold the government accountable, or put questions to the government.

**286.** Moreover, financial audits can identify other things that need to be fixed and support Parliament in its oversight role. For example, a financial audit of the Employment Insurance Account noted that its surplus greatly exceeded the amount that the Chief Actuary of Human Resources Development Canada believed was required, and the government had not provided an adequate explanation. Our reporting has led to a debate about the use of these funds that still has not been completely resolved.

### It's time to move ahead with effectiveness audit

**287.** While there was hesitancy in 1977 to give the Auditor General explicit authority to audit program effectiveness, the Office now has a solid track record. Successive Auditors General have shown that they can stay on the right side of the line between policy and management. There should be no more hesitancy to clearly extend the Office's mandate to auditing effectiveness. It would tell Parliament more about what was achieved with the spending it authorized.

## The next stage: A new *Auditor General Act*?

**288.** In the 1990s, the role of legislative audit as defined in the 1977 Act was consolidated; periodic reporting was introduced; and the Office's mandate was expanded with the addition of environmental audit and the assessment of agency performance reports. While some still criticize the notion that a legislative auditor should be more than simply a financial "bean counter," I believe the present role is generally accepted; in fact, we find our work in increasing demand by Parliament. While we occasionally encounter a certain amount of confrontation and disagreement from government officials, it has almost always been of a professional nature and discussed in an atmosphere of mutual respect. In short, one could conclude that legislative audit is now a very important part of the fabric of the Canadian system of government, as it is in most developed countries.

**There is a need to consider changing the *Auditor General Act* to protect legislative audit.**

**289.** The danger is that things can just as easily get worse as better. There is no reason to think that the status quo can — or should — endure for another 10 years just because it has worked pretty well so far. As I have already noted, one British observer believes that the hard-won standard for probity and efficiency in government can be lost quickly if an audit office's work is impaired. We have good government in Canada, but we need to keep working to preserve it. And to ensure that legislative audit continues to function well, legislative change needs to be considered.

### Stronger protection of independence is required

**290.** First, the independence of the Office of the Auditor General needs stronger protection. At present, the Office's budget is negotiated with officials of the Treasury

Board. Although this has not yet done any harm, I believe it is an uncomfortable arrangement. It could lead to unwarranted pressure on the Office and result in the withholding of necessary funds. In addition, the Office needs to have more administrative autonomy in the areas of staff remuneration and collective agreements.

**291.** The United Kingdom has a better system of funding that sets the audit office's budget by recommendation of an all-party committee of members of Parliament to the government. This puts the budgetary decision where it rightly belongs — with the members of Parliament to whom the Auditor General is responsible — rather than with public servants. I believe we could follow the British example, within the constraints of the Canadian Constitution, for the audit office and perhaps for other officers of Parliament as well.

## Let's clarify the rules on who the Auditor General should audit

**292.** New agencies are continually being established, and they carry out what used to be among the core functions of government — food inspection, park services, revenue collection, among others. The Auditor General has remained the designated auditor of these new agencies. This is appropriate: organizations established to fill public policy roles assume unique risks; the Auditor General brings unique expertise as a legislative auditor and maintains a focus on reporting to Parliament and protecting the public interest.

**293.** We must look ahead, however. Some bodies have also been created to which the Auditor General was not appointed auditor — the Millennium Fund and the Canada Pension Plan Investment Board, for example. If Parliament is to ensure that its oversight function is real, it needs to set the principles and guidelines that establish when its auditor can examine new entities and report to the House. Guidelines might include whether or not the organization delivers a core service or has a significant public policy role, the level of parliamentary interest in the program being delivered, the extent to which it is dependent on government resources and its financial impact on the government, and the risk to the government inherent in the programs or the role of the organization.

**294.** Furthermore, the question of what role the Auditor General should play if *not* the auditor of an agency must be resolved. Should the Auditor General have limited access through the agency's appointed auditor, or be able to audit these agencies directly? It would make a lot of sense to review this question and resolve the level of access for Parliament's auditor.

**295.** In short, we need to recognize that the *Auditor General Act* and other legislation governing audit is not perfect. Let's think about whether it should be amended.

## SECTION IX

# Concluding Thoughts

**296.** Ten years as Auditor General have been the source of great satisfaction — and, not surprisingly, some frustration. In many areas, we have been able to make a difference and public administration has substantially improved over the last decade. It takes hard work to maintain a healthy democracy with strong institutions. One of the major contributions of the Office to that effort is providing Parliament and the public with information needed to hold ministers and officials accountable for their decisions. Our country has generally done well in having honest and efficient government administration — but the federal record is far from perfect. Canada has the potential to be a true model of good government and accountability; more work is needed to ensure that the federal government lives up to this potential.

### Contributing to the financial health of the federal government

**297.** When I took office as Auditor General, I was deeply concerned about the chronic deficits the federal government had run. To me, the fiscal file was the key to allowing the government to serve the country better.

**298.** As we all know, the government has made substantial gains in its ability to live within its means and is now achieving surpluses. I believe we are on

the right track, and I take some satisfaction from the contribution the Office made by ensuring that Parliament received a clear picture of the problem. Nevertheless, a lot more needs to be done to ensure that we do not put ourselves back in the same position. The government made its cuts through a one-time process it called Program Review. This process forced the politicians to choose the services they really wanted and could afford, and forced the public servants to find more efficient ways to do the job. The cuts were made, but poorer service often resulted. With more money now available, gaps in service can be filled — but there is a risk that programs will balloon beyond what is necessary and that programs no longer needed will be retained because times are good. The issue is not whether the government should increase program spending or not, but whether there is a disciplined process in place to screen and review expenditures. The reassessment of priorities and the search for efficiencies occasioned by Program Review need to be made a permanent and continuous part of government. Stronger means of challenging and replacing old programs need to be put in place.

**The federal government is on the right fiscal track but needs to move on permanent administrative reforms.**

**299.** When I began my term, I was also concerned that Revenue Canada could not compete with the expert tax advisors available to large corporations and wealthy individuals and was in danger of being overwhelmed. Enforcement was also seen as a problem but by identifying inequities and seeing them corrected, I believe we have made a contribution to the integrity of the system and the financial health of the government.

## Human resource management is unreformed

**300.** Human resource management in the public service has changed little in 30 years, despite continued dissatisfaction, many studies, and repeated efforts at reform. The rules and systems are so complex that the federal government needs almost four times as many human resource management professionals per employee as the private sector. Filling a vacancy takes twice as long in the core public service as in other public institutions — and many public servants believe the system is unfair. This in spite of the fact that the system is intended to protect the merit principle.

**301.** If complexity and delay were the only problems, the situation might be tolerable. But other problems are equally serious. According to the 1999 public service employee survey, public servants still like their jobs, are satisfied with their careers and are proud of the

work carried out in their units, but danger signs exist. The federal government is becoming a less desirable place to work for many people in key areas. Other studies show that knowledge workers — who make up 55 percent of the public service compared with about 33 percent 15 years ago — see their workplace as bureaucratic, marked by intergroup conflict and unreasonably heavy workloads. Not surprisingly, about 75 percent have thought about leaving; those who are staying are older. When the older group begins retiring in large numbers a few years from now, there will be too few experienced people in the public service to replace them unless effective recruitment and employee development measures are taken.

**302.** The frustrations of dealing with the system have led some federal institutions to give up and get out. Recently, institutions like the former Revenue Canada — employing more than 50,000 public servants — have moved from the core public service to become separate employers. I believe that escaping from the human resource management system in the core public service has been a major factor in their decisions to leave.

**303.** A system in which statutory responsibility is more decentralized may not be a bad thing. Although to this point Canada has chosen to have a uniform system of human resource management throughout the core public service, some other countries' approaches are much more decentralized. Canada could follow a similar approach. Government departments in Canada are large enough to provide careers for most of their employees; moreover, changing jobs from one employer to another is not unheard of in the private sector. What is important is that change at this high level be carefully considered and carried out deliberately. It must surely be better to decentralize purposefully than by decisions made one agency at a time.

**304.** Clearly, I am discouraged by the slow pace of reform in human resource management. It deserves the sustained focus of the government's senior leaders and their insistence on results. The subject has been much studied, but many of the issues have proved intractable over a long period. There still does not appear to be a consensus on solutions among top officials. And the reforms implemented over the years have focussed on making improvements within the existing legislative framework. In the context of the significant changes the public service is undergoing and the challenges that lie ahead, I see the need for a comprehensive review of the basic legislative framework. Over the last two decades, most reform proposals have come from senior public servants or from studies they have commissioned. I believe the time has come for the government to consider establishing an independent review aimed at producing reform proposals and the accompanying draft legislation.

## Being accountable is a big problem

**305.** In some areas I believe there has been less change than the country needs. One of the most important is the lack of true accountability for the management of government programs. Although we see some indications that the public service culture is more willing to accept the measuring of results, and reporting to Parliament on government performance has improved somewhat, we have not really moved very far ahead. Other countries are rapidly strengthening accountability, and Canada is in danger of being left behind.

**306.** Part of the problem is the nature of Canadian politics. There is a reluctance to let Parliament and the public know how government programs are working, because if things are going badly you may be giving your opponents the stick to beat you with. And even when a minister is not personally concerned about this, senior public servants assume this fear on the minister's behalf. The people who write government performance reports seem to try to say as little as possible that would expose their department to criticism.

**307.** While auditors are not experts in constitutional law, it seems to me that the problem goes deeper than individuals and appears to be cemented in the Canadian version of the doctrine of ministerial accountability. In every Westminster-style government, ministers are responsible to Parliament for the state of their departments. Unlike other countries, however, Canada has never modernized its doctrine to distinguish between the minister's area of public responsibility and that of his senior public servants. To me, there is a certain lack of realism in holding ministers ultimately accountable for everything. Overall, our system makes it difficult to be candid and therefore Parliament has a hard time in discussing certain issues with officials.

**Ministers and senior public servants should consider the benefits of greater openness.**

**308.** I think that if ministers and senior public servants reflected more deeply on this problem, they would see that their true interest lies in greater openness and clearer assignment of accountability. During my tenure, the Minister of Health provided a positive example of the value of candour when he posted on his departmental Web site his plan to address problems identified in our audits. In many other cases, however, reactions have been very defensive.

**309.** The problem of failing to disclose bad news is being compounded by the poor quality of records kept in departments. Part of this can be attributed to a certain paranoia over

Access to Information rules and the traditional reluctance of senior public servants to keep records of direction from ministers or discussions of why decisions were made.

**The Information Commissioner has called attention to serious problems in records management.**

**310.** Accountability is also made more difficult by damage to the audit trail. Efforts to reduce administrative overhead appear to have resulted in disproportionate cuts in records management. My colleague, the Information Commissioner, has called attention to the reduced numbers of information handlers, librarians, records clerks and filing secretaries, a situation that he believes has devastated the records management discipline. This hampers not only the public's ability to gain direct access to government records but also the institutional memory of the departments themselves. The ability to audit decisions suffers as well.

**311.** The audit trail is also damaged by the way information technology is used. At one time, all correspondence and documents were on paper and were physically filed in a department's central registry. Today, internal memos have been replaced by e-mails, which are not filed centrally and which evaporate when the server where they are stored runs out of space. Most knowledge workers have their own hard disk and keep many important records there, invisible to the departmental records managers. I agree with the Information Commissioner in his opinion that these practices are eating away at the foundations of accountability in the federal government. I am concerned that without better use of technology, it will become more difficult to know how and why important decisions were made.

## Financial management has not improved substantially

**312.** In 1989 the government began to develop a financial information strategy. The major portion may be completed by 2002 — but that isn't certain, even after 13 years. I have not seen real progress toward a fully integrated management system that includes financial management. Until very recently, financial management was regarded as a separate system that deputy ministers did not have to worry about much. All they needed to know was that there was still cash in the drawer and no laws or regulations had been broken. The predominant vision was that all the money voted by Parliament was to be spent by the end of the year. The big decisions — what programs to put in place and how to change program

delivery — were often made without much relation to financial management. Attitudes have begun to change, but we have yet to see the changes carried through to actual management systems.

**313.** In other countries, like Australia, the allocation of resources among different departments, and within departments among different programs, is based more and more on whether they have met financial and performance objectives. Some, like New Zealand, go even further and use financial and performance goals to establish the pay of deputy ministers.

**Linking the pay of senior public servants to financial and performance results would lead to quick improvements in financial information systems.**

**314.** Another challenge is linking performance to costs. This is difficult to do, but vital to managing for results. Even if managers can say that their economic development programs have increased employment, they need to know how much it cost. If they know how much things cost, they can make rational choices. It is vital that the new pay-at-risk system link senior public service pay and the allocation of resources to meeting financial and performance objectives. This will automatically raise the interest of deputy ministers and assistant deputy ministers in how well their financial management systems work.

## Delivering on environmental commitments

**315.** As the saying goes, "Talk is cheap." Although the federal government has repeatedly stated that it is committed to sustainable development — balancing economic, social and environmental goals — it has continued to fall short in action. The Commissioner of the Environment and Sustainable Development has cited the failure of the federal and provincial governments to work effectively together as a key part of the problem. From the beginning of my service as Auditor General, I was concerned about the lack of co-ordination within the federal government. In some ways it has become more serious, as programs are increasingly likely to be partnerships between the federal and provincial governments.

**316.** The former Commissioner cited the failure of smog management to reduce air pollution as an example of the need to make partnerships work. He concluded that while

the federal government had done most of what it said it would do to reduce smog, it had failed at its most important task — to lead the national effort. And the smog program is not an isolated case. We have identified problems in the government's management of key issues like climate change, toxic substances and biodiversity. Commitments made to Canadians are not being met.

**Partnerships between the federal government and the provinces to manage the environment need to be based on clear accountability.**

**317.** The federal government needs to find ways to improve its own record on the environment and, where other levels of government also have constitutional responsibilities, to exercise leadership at the national level. Although our federal system does make it more difficult to manage shared issues, inefficient or ineffective management should not be accepted. This is a sensitive issue, but like other important areas of shared jurisdiction, the environment must be managed coherently across the land.

## On a personal note

**318.** The cynical view that our federal system of government can't be changed is firmly anchored in some quarters. It is certainly true that change takes much longer than any of us would like, but it has occurred nevertheless in a number of important areas.

**319.** During my mandate, the government took major steps to address the debt and deficits and improve fiscal and financial management, and it began to address environmental concerns. The challenges still confronting management in the federal government can be summarized easily: continuous review of programs, meaningful accountability, and improved financial and human resource management. I encourage the government — and the next Auditor General — to keep these issues at the forefront when they set their priorities.

**320.** I also ask those who have become cynical about their government to reconsider. Our institutions are the best defence of ordinary citizens against adverse trends that require collective action to mitigate — I place economic, social and environmental concerns in this category. Our public institutions are also the best defence against the power of vested interests that might seek special consideration in laws or simply a free hand to do what

they want. Our institutions are important. Politics is important. It is our duty as citizens to strengthen the institutions of government. Those of us who are or who have been inside the system have a duty to ensure that we remain accountable for our actions and the vast resources and aspirations entrusted to us.

**321.** Finally, I would like to bid *au revoir* to all those I have worked with over the last 10 years. I am grateful for the extremely high level of skill and devotion to duty I found in my colleagues in the Office of the Auditor General. I would also like to thank ministers and public servants for the respect they have shown the Office and me personally, and for their hard work to implement the recommendations we have made. Finally, I am grateful for having had this unique opportunity to serve Parliament and the people of Canada.